FEBRUARY 1961

The Mortgage Banker

FLASH! ON THE STREET—EVERY STREET—THE BIG NEWS IS THAT THE THREE BEST TIPS FOR THE NEXT THREE MONTHS ARE MBA'S MORTGAGE CONFERENCES . . . CHICAGO FEBRUARY 20-21 . . . ATLANTA APRIL 10-11 . . . MONTREAL MAY 18-19 . . . THEY'RE SPACED SO THAT ACTUALLY ONE COULD CATCH ALL THREE . . . AND FIND EACH ONE ENTIRELY DIFFERENT AND REWARDING IN A SPECIAL WAY . . . IN CHICAGO SOMETHING BRAND NEW HAS BEEN ADDED . . . A SERIES OF WORKSHOP SESSIONS WHICH BEGIN EACH MORNING AT 8:30 RUNNING TO 11 WHEN GENERAL SESSIONS TAKE OVER . . . THESE WORKSHOPS GET RIGHT DOWN TO BEDROCK . . . HOW CAN WE BEST SELL TO PENSION FUNDS . . . WHAT ABOUT MERGERS AND ACQUISITIONS IN MORTGAGE BANKING, HOW NECESSARY IS SIZE, HOW PROFITABLE ARE BRANCHES? . . . TECHNIQUES THAT WORK IN MAKING AND SELLING COMMERCIAL AND INDUSTRIAL LOANS . . . OPPORTUNITIES IN FHA'S SPECIAL PROGRAMS . . . MANAGEMENT SUCCESSION — HOW IMPORTANT TO MORTGAGE BANKERS AND HOW DO INVESTORS REGARD THE MATTER. AND OF COURSE IN CHICAGO, AS AT THE OTHER CONFERENCES, HIGH ON THE LIST OF MATTERS FOR CONSIDERATION

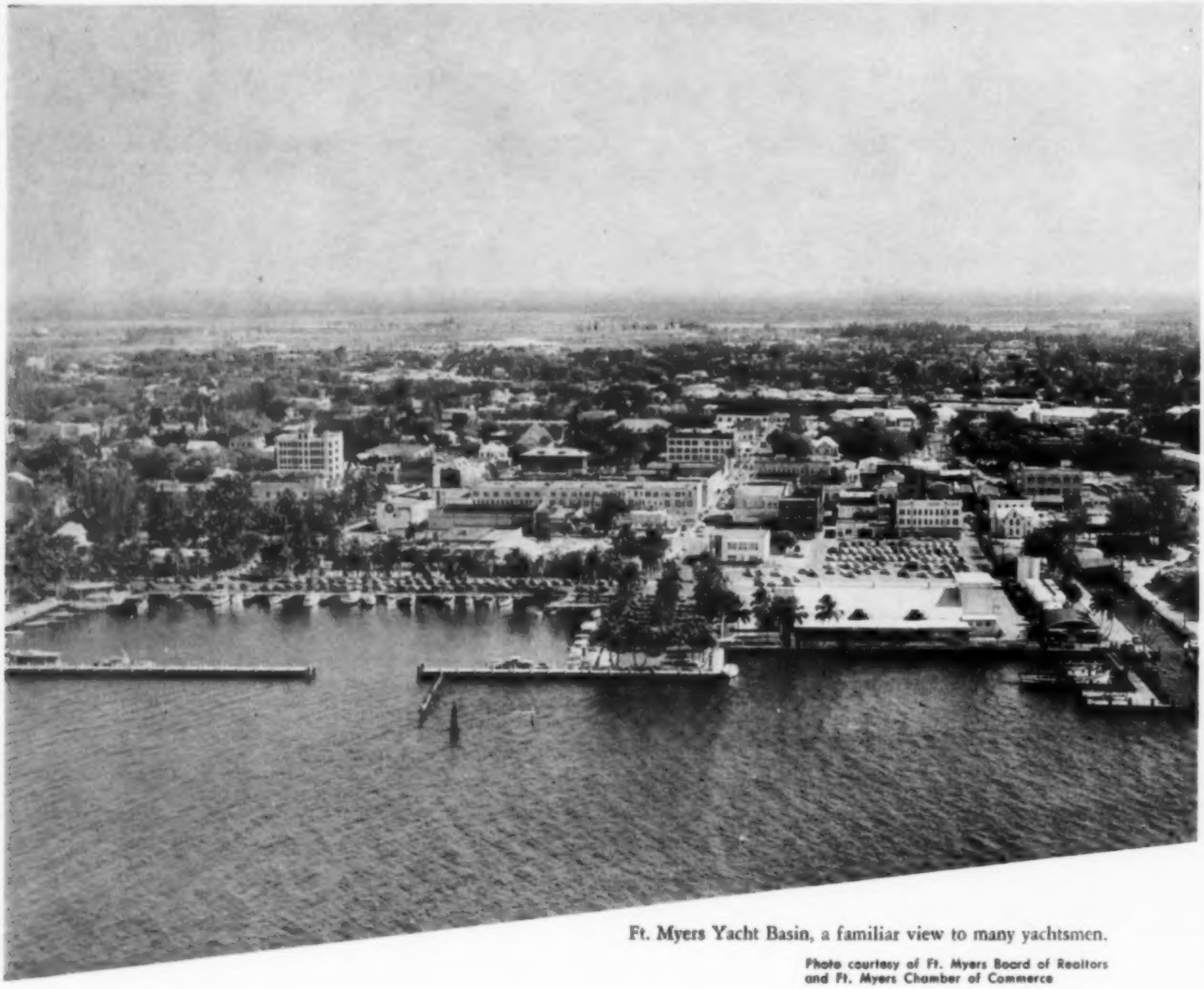
WILL BE THE REAL ESTATE INVESTMENT TRUST AND IN CHICAGO AN ENTIRE PANEL DISCUSSION IS GIVEN OVER TO IT. CHICAGO CONFERENCE IS FIRST UP FOLLOWED IN APRIL BY ATLANTA, PRESIDENT THARPE'S HOME CITY . . . ATLANTA ALSO HAPPENS TO BE ONE OF THOSE CITIES WITH A WIDE AND EXTENSIVE EXPERIENCE IN PUTTING ON HIGHLY SUCCESSFUL MBA MEETINGS AND THIS ONE PROMISES — IF THAT IS POSSIBLE — TO EXCEL THOSE OF THE PAST. THE PROGRAM IS SURE TO BE A CHALLENGING ONE WITH A LOOK INTO THE POSSIBILITIES OF URBAN RENEWAL . . . ANALYSIS OF SHOPPING CENTERS . . . COMMERCIAL BANKERS AND MORTGAGE BANKERS WORKING TOGETHER . . . THE THIRD AND LAST OF MBA'S SPRING CONFERENCES IS MAY IN MONTREAL, FIRST TIME FOR AN MBA MEETING IN CANADA . . . THIS ONE HAS A SPECIAL LURE ALL ITS OWN — THE OPPORTUNITY TO VISIT ONE OF THE MOST COLORFUL AND PICTURESQUE CITIES IN THE WESTERN HEMISPHERE . . . MONTREAL IS SOPHISTICATED, MODERN, RICH IN A GREAT HISTORICAL PAST AND ABOVE ALL FRENCH . . . THERE IS A WORLD OF THINGS TO DO AND SEE IN MONTREAL AND MOST OF THEM WILL BE NEW TO MBA MEMBERS . . . THE PROGRAM PLANNED WILL BE INTERESTING, VALUABLE AND PROFITABLE . . . AND MAY IS A WONDERFUL TIME TO SEE THIS CAPITAL OF FRENCH CANADA.

MORTGAGE BANKERS ASSOCIATION OF AMERICA — MBA — ORGANIZED 1914

in this issue — — — — —

MORTGAGE MONEY—WHO WANTS HOW MUCH ★ HOW THE BIG TIME OPERATORS VIEW REAL ESTATE

ONE OF A SERIES OF ADVERTISEMENTS DEPICTING THE BEAUTY OF OUR FLORIDA COMMUNITIES



Ft. Myers Yacht Basin, a familiar view to many yachtsmen.

Photo courtesy of Ft. Myers Board of Realtors and Ft. Myers Chamber of Commerce

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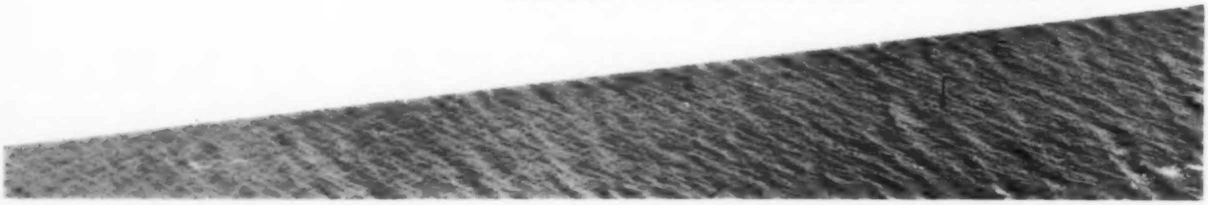

MBA CALENDAR

February 20-21, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

April 10-11, Southern Mortgage Conference, Dinkler-Plaza Hotel, Atlanta

April 20-21, Mortgage Servicing Clinic, Olympic Hotel, Seattle

May 18-19, Eastern Mortgage Conference, Queen Elizabeth Hotel, Montreal, Canada

School of Mortgage Banking, Northwestern University, Chicago:

June 18-24, Courses I and II

June 25-30, Course III

School of Mortgage Banking, Stanford University, Stanford, California:

July 23-29, Course I

July 30-August 5, Course II

September 11-14, Electronic Convention, Statler Hilton Hotel, Detroit

October 30-November 2, 48th Annual Convention, Americana Hotel, Miami Beach, Florida

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President Tharpe's Calendar

February 7, Birmingham MBA

February 15, Philadelphia MBA

March 16, New Jersey MBA, Newark

March 23, St. Louis MBA

March 24, Nebraska Lenders Association, Omaha

April 6, California MBA, Coronado, Calif.

April 24, Iowa MBA, Sioux City

April 30, ABA Trust Conference, Washington, D. C.

May 10, Texas MBA, Ft. Worth

The Mortgage Banker

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GEORGE H. KNOTT, *Editor* · ROBERT J. BERAN, *Associate Editor*

Volume 21 · **February, 1961** · **Number 5**

Contents

THE MONTH'S COVER is meant as another reminder of MBA's 1961 series of Mortgage Conferences, not forgetting that there is a big Mortgage Servicing Clinic in Seattle in April and Servicing's very big Electronic Convention in Detroit in September. Quite a bit about the Chicago Conference is in this issue—incidentally, on the cover, that's a view up Michigan avenue. News of the Atlanta Conference will be coming along soon. The Atlanta part of the cover is a reproduction of the city's famed Cyclorama painting of the Battle of Atlanta—quite appropriate since this is the opening year of the great centennial of the Civil War. As for Montreal, that's the Place d'Armes where stands the statue to Sieur de Maisonneuve who founded the city in 1642. And in this issue—since this is MBA's first excursion into Canada—is some advance information.

Quotes

Reflections of the World Today in Capsule Comments

SHORT AND NOT PAINFUL

Said Leo Cherne of Research Institute of America:

"This recession will be a shallow one and relatively brief compared with others of the past 25 years."

•

IT'S COMING—OR HERE?

The upturn that is, it's right ahead of us if it hasn't already set in, said Prof. J. Philip Wernette of Michigan's School of Business Administration:

"The trend will definitely be up in 1961. While most experts do not expect the recovery to start for three to six months, the upturn will set in soon, and may already be under way. . . . It is hard to see how the Federal Reserve can avoid substantial responsibility for the 1960 downturn. The Federal Reserve has been doubly wrong in trying to restrain inflation—first, because it is not so hurtful as they seem to think and secondly, because the tools available to them are virtually useless in coping with the kind of 'seller-push' inflation that has characterized the economy in recent years."

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STIMULUS TO RECOVERY

The turning point can come suddenly, without warning, as it has many times in the past, said Economist Addison T. Cutler of Cleveland's Federal Reserve Bank:

"It is not necessary to wait for a renewed consumer splurge to have a renewed forward movement. As soon as the time comes when an appreciable segment of the business community finds that it must do some extensive reordering in order to keep on an even keel in its own business performance, the stimulus will be felt all along the line.

"That is what happened quite suddenly—and to many people quite unexpectedly—in April, 1958, thus writing 'finis' to the rather short recession of 1957-58. A similar occurrence may write 'finis' to what could turn out to be the short and even milder recession of 1960-61.

"Whether to count on this kind of outcome (an automatic recovery via the inventory route) or whether to take emergency measures to stimulate the economy—with the risks of maladroit timing which would be entailed—is one of the most important problems of public policy which is in store for the months ahead."

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IT'LL RUN THROUGH 1961

Said Dr. Marcus Nadler of NYU:

"The post-war boom came to an end in 1957, and no new forces are in evidence in the private sector of the economy to create a strong upswing in the near future. The forces of inflation have run their course. While the consumer index continues to rise, the index of wholesale prices has remained practically stable in the past three years."

THE NEXT PUSH

Savings are increasing, yes, but not accelerating. Says Impact, published by the Central National Bank of Des Moines:

"Americans are busily squirreling away the funds which will power the next boom. As they do in every period of recession, millions of consumers have put a tighter rein on their spending, and while this pinches business now, it will provide the money both for consumers to spend and industries to borrow and invest in the next upswing.

"People not familiar with the savings patterns of modern America may still talk of 'saving for a rainy day,' but for a nation which has known only varying degrees of economic sunshine for almost a generation, that expression has less meaning.

"Instead, we have gotten into the habit of saving little while we bask in the radiance of complete prosperity, and of stepping up that saving when in a period like the present.

"Savings as a percentage of personal income have thus fluctuated between 6 per cent and 8 per cent in the past decade, dropping toward the 6 per cent level in years of booming business, like 1955 and 1959, and climbing toward the 8 per cent mark in recession years, like 1953 and 1958.

"The pattern has repeated itself in a classic manner in the past year, as

savings have climbed from only 6.6 per cent of disposable income in the third quarter of 1959 steadily to 6.7, 6.8, 7.1 and a whopping 8.1 per cent in successive quarters.

"That in itself is a hopeful sign, of course, for it corroborates what our growing knowledge of the forces which cause business cycles tells us—a rate of savings as high as the present sows the seed for a vigorous business upswing."

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DOLLAR DEVALUATION

Will it come—or won't it? Almost no one can be found who professes to believe that devaluation will eventually result. Said Economist Arthur E. M. Smith of the First National Bank in Dallas:

"The psychological impact of devaluation now would produce a quick upward spurt in some domestic prices, especially those of items in which speculators take an interest, but higher prices would not hold for any appreciable length of time unless the total money supply increased in the economy. The most immediate and most certain effect of dollar devaluation would be upon foreign exchange rates. Devaluation would make the United States a great bargain counter for foreigners until our price level and that of other countries came into balance, either from supply and demand action or from retaliatory action by other countries."

•

S & L POINT OF VIEW

Said new U. S. Savings and Loan League President C. Elwood Knapp:

"We are optimistic that the worst of the slump is behind us. We think that the building decline of the past year will be halted by the Spring of 1961, and that there should be some improvement in home building during the second half of the year.

"When one considers the population figures it seems likely that a dramatic upsurge in new household formations—which in turn would ignite a new home building boom—is still a few years away. Under these circumstances, home building and real estate activity may hold a 'plateau' position in the over-all economy, providing little impetus either upward or downward.

"We have huge amounts of money to keep invested in home mortgages. We cannot invest elsewhere, and therefore, we have a vested interest in making certain that home building and real estate activity maintain a healthy, if not booming, level."

•

THE EISENHOWER YEARS

Said the retiring president about urban renewal, home building, mortgage financing, etc. during his Administration:

"More houses have been built during the past eight years—over 9 million—than during any previous eight years in history.

"An historic new approach—urban renewal — now replaces piecemeal thrusts at slum pockets and urban blight. Communities engaged in urban renewal have doubled and renewal projects have more than tripled since 1953. An estimated 68 projects in 50 cities will be completed by the end of the current fiscal year; another 577 projects will be under way, and planning for 310 more will be in progress. A total of $2 billion in federal grants will ultimately be required to finance these 955 projects.

"New programs have been initiated to provide more and better housing for elderly people. Approximately 25,000 units especially designed for the elderly have been built, started or approved in the past three years.

"For the first time, because of federal help and encouragement, 90 metropolitan areas and urban regions and 1,140 smaller towns throughout the country are making comprehensive development plans for the future growth and development.

"Mortgage insurance on individual homes has been greatly expanded. During the past eight years, the Federal Housing Administration alone insured over 2½ million home mortgages valued at $27 billion and in addition, insured more than 10 million property improvement loans.

"The federal government must continue to provide leadership in order to make our cities and communities better places in which to live, work, and raise families, but without usurping rightful local authority or replacing individual responsibility."

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REPORT ON A REPORT

And the report is that of Dr. Paul Samuelson of M.I.T., one of the many "task" force reports submitted to

President Kennedy immediately before his inauguration. Said one section:

"The last two recessions were helped immensely by a successful program to make credit more available to residential housing. No experts could have predicted the anti-cylical potency that housing has shown in the postwar period. Already we have seen some easing of credit in this area, but such steps do not seem this time to have been so successful in coaxing out a new demand for home construction. There is perhaps some reason to fear that less can be expected from the housing area in the year ahead. Downpayments are already quite low, as are monthly payments. Vacancy rates, particularly in certain areas and for certain types of housing have been rising. The age brackets that provide the greatest demand for new housing are hollow ones because of the dearth of births during the depression of the 1930's.

"Nonetheless, so great is the need for housing a few years from now when the wartime babies move into the house-buying brackets and so useful is the stimulation that a resurgence of housing could bring that it would seem folly not to make a determined effort in this area. In particular, loans for modernization of homes, which now bear so high an interest rate, might provide a promising source for expansion.

"Many specific actions will be required. Mortgage rates might be brought down to, say, 4½ per cent interest, with discounts on mortgages correspondingly reduced; consideration might be given to further extended maximum amortization periods. The insurance fee for single dwellings under FHA programs might be reduced from ½ per cent to ¼ per cent. The Federal National Mortgage Association could step up its mortgage purchasing program, especially for high-risk mortgages lacking private markets. Housing for the elderly is another program desirable for its own sake. Measures that tie in with urban renewal and college dormitories, as covered above, also hold out promise.

"Particularly because our international balance of payments inhibits certain types of activistic monetary policy will it be necessary to push hard on specific credit programs in the housing field. Innovation, ingenuity, and experimentation with new instrumentalities will be needed in this matter: it is not reasonable to believe that the patterns earlier arrived at are the last word in feasible programming."

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AND ANOTHER REPORT

This one by the "task" force headed by Joseph McMurray, former New York State Housing Commissioner, now president of Queen's College in New York but better known as the chief of staff of the housing sub-committee of the Senate Banking and Currency committee. It said—in addition to recommending a Department of Housing and Urban Affairs with cabinet status:

• Liberalize terms of FHA by reducing interest rates.

• Provide additional funds for FNMA to purchase mortgages under its presently operating secondary market program.

• Provide additional funds for the direct loan program and to non-profit corporations for housing for the elderly and permit it to be financed as a public debt transaction rather than by Congressional appropriations.

• Provide $500 million annually in loan funds for college housing.

• Provide a four-year authorization of approximately $650 million annually for urban renewal, with additional funds for urban planning grants and relief for displaced small businesses.

• Provide, over a four-year period, for a system of partial grants rather than loans for community facilities but with broadened eligibility.

• Encourage orderly suburban development by providing planning grants and a loan fund to enable suburban communities to acquire and improve tracts of land.

• Provide for an expanded program of research in housing and urban development and encourage innovation and experimentation in the FHA program.

• Extend the present farm housing program for four years, provide $450 million additional for direct loans and an additional $10 million to help "potentially adequate" farms, an additional $50 million for improving farm sanitation.

• Set up an entirely new subsidy program to provide housing for low-income families, "encourage a maximum of private enterprise participation" and give the widest discretion to local communities in their choosing of their housing program, including public housing which would be "continued and improved."

•

MAY STIMULATE HOUSING

Said George J. Bender, president of the Brooklyn Savings Bank in appraising the future from the viewpoint of a mutual savings institution:

"The prediction of an early inflationary supply of cheap money is, in my opinion, completely erroneous. The new Administration must cope with international monetary problems which become increasingly difficult as years go by. Our position in the world markets is such that a continuing outflow of gold cannot be permitted. Cheap money without doubt would increase the outflow. Therefore, while there will probably be some lowering of interest rates—principally because the economic upturn in foreign countries seems to have stopped for the time being—the supply of money will not be increased appreciably. Of course, national budget deficits and large Federal expenditures are bound to have inflationary effects. In my judgment, however, enough conservation thinking appears to be present in the new Administration to forestall any wildly inflationary projects.

"The field of housing seems to be one which this Administration will attempt to stimulate. This could be done by lengthening the term of insured mortgages and perhaps decreasing required down payments. Deficits in capital expenditures by such different agencies as FNMA do not have the immediate effect of deficits in the Federal budget and, therefore, would be a more conservative type of inflation if such a comparison is permissible."

MEN FOR HIRE

As a part of MBA's student placement program, the Association regularly makes available to its members candidates which are, or soon will be, available for employment. All are interested in careers in mortgage banking and all have been carefully screened as to qualifications. To secure more details, address the candidate by the box number shown and mail to the Association.

Candidate No. 101—Box 702. Age 27, single. B.S. degree in Business Administration, The American University, September, 1955. Master of Business Administration, January, 1961. Available for employment, February, 1961. Awarded the Morton J. Luchs scholarship in real estate. President of freshman class, representative of student government and member of Society for Advancement of Management. Tutored mathematics. Part-time employment as auditor's assistant, clothing salesman, and assistant manager of discount company financing insurance premiums on a national level. U. S. Marine Corps, September, 1955 to September, 1957. Received commission, present rank of Captain. College instructor comments, ". . . has had a broad range of experience, as a supplement to his formal education in the field of finance. He is eager and aggressive and would be a definite asset to any organization which employs him. As a student in the real estate program he has contributed fully in class participation and has obtained better than average grades."

Candidate No. 102—Box 703. Age 23, single. B.S. degree, The American University, January, 1961. Majority of college work in real estate and economics. Member of Rho Epsilon Real Estate Fraternity. Part-time experience as research laboratory technician, assistant to accountant, and real estate salesman. 4-F Selective Service classification. Available for employment February, 1961.

Candidate No. 103—Box 704. Age 25, married, 1 child. Received B.S. degree, Ohio University, June, 1958. Commerce training includes accounting, business law, economics, finance, investments and management. President of Intra-Fraternity Pledge Council and member of Society for the Advancement of Management. Part-time employment as driver-salesman, electrical maintenance helper and general maintenance helper. Lieutenant, U.S. Air Force, September, 1958 to March, 1961. Personnel and Administrative Officer of sub-arctic Air Force radar station. Correspondence course in principles of real estate and other subjects related to mortgage lending. Available April, 1961. College instructor comments, "He is a capable and attractive young man who is interested in the career of mortgage banking."

Life Company Funds Pour Into U.S. Urban Renewal

The real job of renewal of our cities is represented by the investments life companies are making to halt spread of decay

Funds of the life companies are helping cities throughout the United States to fight the battle against urban obsolescence and decay.

In the past decade, life companies have put over $10,000,000,000 to work improving the business, residential and recreational facilities of American cities. This huge investment has made possible new office buildings, apartments, stores, schools, hospitals, hotels, theaters, shopping centers, bowling alleys, expressways, bridges, tunnels and many other facilities.

Many of these new structures have replaced crumbling tenements and outmoded commercial buildings which marred the beauty of downtown areas and jeopardized health, safety and morale.

Life insurance funds have been the most important single source of capital for the post-World War II office-building boom. A survey by Julien J. Studley, a leading commercial realtor, indicates that in New York alone life companies have invested about $750,000,000 in new Manhattan office buildings since the end of the war, including nearly all of the 150 or so major office structures built during this period or now under construction.

For example, New York's 52d Street was formerly a synonym for nighttime gaiety. But the main string of gaudy cabarets and honky-tonks that once separated tourists from their dollars along 52d Street have all been demolished. In their place is rising, among others, the new 43-story, $75,000,000 Uris Building at 1290 Avenue of the Americas.

In Pittsburgh, $75,000,000 of life insurance money went into redeveloping a 23-acre blighted area at the apex of the city's Golden Triangle, where the Monongahela and Allegheny Rivers merge to form the Ohio River. This "Gateway Center" area is now a colorful plaza and park, bordered by six gleaming stainless steel office skyscrapers and a new hotel.

In the heart of downtown Philadelphia, several life companies have invested a total of at least $50,000,000 in the Penn Center development on the site of the old Broad Street Station of the Pennsylvania Railroad.

In Hartford, Conn., a former 12-acre downtown slum is being turned into one of the most valuable pieces of real estate in New England through a $35,000,000 life insurance investment. When finished in 1963, this "Constitution Plaza" will include five modern office buildings, a shopping court, a 250-room hotel and an undeground parking garage.

Immediately after World War II, life companies pioneered in helping to meet a critical housing shortage in American cities. Life companies planned and developed great, modern apartment projects like Stuyvesant Town and Peter Cooper Village in New York's gas house district and Lake Meadows in a southside Chicago slum.

Modern apartment developments for city dwellers at all income levels continue to rise on a massive scale as a result of life companies' investments. In recent years, one life company has provided nearly $50,000,000 for a dozen different apartment buildings throughout Chicago's northside lakefront area to house more than 4,000 families.

In Manhattan, perhaps the largest single residential mortgage loan in history has revived a three-square-block area of blighted tenements and worn-out commercial structures in historic Greenwich Village. They have been replaced by "Washington Square Village," which includes two modern 17-story terraced apartment buildings, a shopping area, a chil-

dren's playground and broad stretches of grass and gardens. A life company invested $20,000,000.

The nation's continuing need for new office space was underscored by a recent Department of Labor estimate that, during the 1960s, there will be a 30 per cent increase in the nation's clerical force and 40 per cent rise in technical personnel.

Among the dozens of new office structures made possible by life insurance in midtown Manhattan are the 47-story Time-Life Building on Avenue of the Americas, and the 39-story Tishman Building at 666 Fifth Ave. They provide facilities for over 25,000 workers.

Office construction is also underway at a fast pace in the financial section of lower Manhattan. One of the largest new buildings is the New York Produce Exchange at the foot of Broadway.

Here are some new commercial buildings financed by life insurance in other cities:

Dallas—a 42-story skyscraper and two other huge buildings.

Denver—A new hotel and department store.

Los Angeles—More than a score of buildings along Wilshire Boulevard, near the Ambassador Hotel and in the Miracle Mile area.

Cleveland—The 21-story East Ohio Building on Superior Ave.

Seattle—The 20-story United Exchange Building.

Buffalo—A 20-story office building on Lafayette Square.

New Orleans—The 28-story Allen-Towers Building at the Corner of Gravier and Baronne Streets.

Atlanta—The Georgia Power Building and the 22-story Atlanta Merchandise Mart.

San Francisco—A skyscraper built as the regional headquarters of a life company was the first new major building in the city in more than 20 years. It sparked a building boom that resulted in at least ten other buildings.

Montreal — Place Ville - Marie, an $80,000,000 project that includes a 42-story skyscraper in the shape of a cross, several smaller office buildings, a large shopping center and promenade.

AS THEY DEPARTED

Said retiring HHFA Administrator Norman P. Mason:

"I fully expect that in the next decade private enterprise will produce more than a half million units especially planned for older citizens. Although much of the housing will be of the rental or project type, a large share will be single family or duplexes which older people seem to prefer."

Said David M. Walker, retiring Urban Renewal Commissioner:

"We need a new organization in our mortgage insurance programs so that we can produce good housing and good neighborhoods for middle-income families without resort to direct government subsidies. Unless urban renewal is fortified with a workable financing vehicle for middle-income housing, the program will fail to produce improvements."


POLICY
OF
TITLE
INSURANCE
TITLE INSURANCE
AND
TRUST COMPANY

Challenges in the Future For Mortgage Bankers

No other group in the country, says Raymond Rodgers, can make their future so completely what they want it to be as mortgage bankers. Question is: will they and in what way? The winds of change are strong within the industry, what kind of financing will be done in the future, for what groups, on what basis? Some clearly evident needs loom large: more research, more positive identification of the industry and what it does—and there are many more. Prof. Rodgers has had, as mortgage bankers know, a long and close association with the mortgage industry.

THE lush days of the enormous post-war housing shortages with their huge housing developments are over. Competition is no longer merely a nice, genteel game of wits and personality with other mortgage bankers. Today, you have to compete with mutual funds, consumer durable goods, world travel, and all manner of "go-now, pay-later" schemes for the American dollar. And to compound your problem, the type of housing you have been financing has changed from a necessity to an optional basis.

The compulsion of protecting loved ones from the elements is no longer dependable purchase motivation. Optional buying, such as now prevails in housing, presents a totally different set of economic and marketing factors than the sellers' markets of recent years. Mortgage banking faces a new set of conditions which will require flexibility and adaptability of the highest order. The tests which top mortgage banking management will face in the competitive economy of the coming years will not only require your best efforts, they will separate "the men from the boys." So it behooves us to try to understand these new forces and map a course of action which will enable you to render even greater service in the future.

In addition to the return of keen, old-fashioned competition to the general economy, what other new conditions are of vital importance to mortgage banking?

First, as everyone knows, the war-born backlog of pent-up housing demand is gone. Housing must henceforward stand or fall on its own merits.

Second, and a direct corollary to the end of the backlog, easy credit and stretched-out credit terms are no longer sure-fire recipes for a housing boom. In short, payment terms are already so long that you can no longer rely on further easing as a consequential stimulant for housing activity.

By RAYMOND RODGERS
Professor of Banking, NYU Graduate School of Business Administration, at the MBA-SMU Senior Executives Conference

Third, the many things which have been done to make home financing easier have largely contributed to making housing so much more costly that price has become the most outstanding problem in the field.

Fourth, prices of land suitable for housing development have become prohibitive in many areas. Misuse of land, made possible by our especially favorable tax treatment of raw land, has driven the prices of development acreage upward from 100 to 3,760 per cent since 1950. Land as land bears little tax—the buildings on it bear the brunt of the burden. This has enabled speculators to put literally millions of acres of choice land into "cold storage," waiting for higher prices. Clearly, a new tax policy on

land is sorely needed from a social as well as a business standpoint.

Fifth, to secure a fair share of the consumer's dollar, homebuilders will have to improve their product, cut costs and otherwise give better value, as is done in other industries. That's what competition guarantees our form of society. That's the great advantage our competitive capitalism offers over other systems. More for less has made America great, and I know of no economic law which exempts the housing industry from that basic necessity.

The fact that ever easier credit terms has offered a solution of sorts to this problem in recent years is of little further significance in this respect, as the end of that road has been reached.

Let us take a hard look at the demand for housing, as it will be in the future. What do we see?

The population increase, which has meant so much to all of us in recent years, continues at a record pace. The Bureau of the Census indicates a population of 182,200,000 at the end of 1960. This gives an all-time record increase of 31.6 million for the 1950-60 decade, or 3.2 million each year. And present indications are that this high rate of increase will continue, as it now appears that *births* will continue at a rate in excess of four million a year.

Moreover, we are in the early stage of a long upward trend in family formation. As the average age of today's groom is 23 and that of the bride 20.4, and 82 per cent of our girls marry before they reach 25, it is clear that the 19 to 25 year age group is dominant in family formation. The number of young people entering this age group will rise approximately 50 per cent in the Sixties because of the soaring birth rate of the Forties. And that will be only a curtain raiser to the Seventies, as the birth rate of the 1950-60 decade was nearly 80 per cent higher than that of the Forties. So, there'll be no problem on population and family formation.

Well, how about their ability to buy? First, we note that the number of families in the middle-income group continues to expand—and this is the important home buying group. As everyone knows, the middle-class is the greatest spending machine ever devised!

"It is obvious that, until the coming bulge in family formation materializes, the level of housing activity will largely depend on the value offered, that is, on the relative values offered as compared with all other competitors for the consumer's dollar. And this is where mortgage bankers can render the building industry, the home-buying public, the general economy and, of course, themselves a great service . . ."

How about unemployment? Certainly it is one of our problems—in my opinion, our greatest problem as a democracy. But, in 1961 for example, even though unemployment will be high, there will be the offset of $2.5 billion of transfer payments (chiefly unemployment and social security payouts) each month. And the conclusions of the recent Conference in Washington and President Kennedy's stated intentions all point to further increases in the total of these payments. While such payments will not be used to buy housing, the $30 billion, and more, each year will lend powerful support to the payments on houses already bought. And it will certainly go far in the maintenance of credit standards and the prevention of distress selling in the housing field.

Weighing these and many other important factors, it is obvious that, until the coming bulge in family formation materializes, the level of housing activity will largely depend on the value offered, that is, on the relative values offered as compared with all other competitors for the consumer's dollar. And this is where mortgage bankers can render the building industry, the home-buying public, the general economy and, of course, themselves, a great service—a service which will more than justify their important place in the modern economy, in addition to the many valuable services they now render.

Craftsmanship has become a forgotten or, at least, neglected art. Quality is conspicuously absent from much of today's production. Housing, with outstanding exceptions, suffers from this generic fault of our times. The mortgage banker, however, is in an especially favorable position to see that the buyer of housing gets his money's worth. A concerted, industry-wide insistence on quality — and I don't mean just higher prices; anyone can do that—would go far in raising structure and land utilization practices. The bitter characterization of "slums of the future" would then not be applicable to the housing of the future, as it is to far too many of the post-war developments. Assumption of responsibility to buyers, in fact, might well be developed to the point where your name on the financing would constitute a recognized hallmark of quality for your area.

The outlook for demand depends not only on quality and value, it depends on merchandising efforts. As the automobile industry learned the hard way, their original credo of "new and improved" is far better than the seductive "bigger and more expensive" policy, which led them astray when they decided they knew what the consumer wanted better than the consumer himself. The will-of-the wisp of status and the weighty opinions of psychological pundits on hidden motivations of consumers took the place of the direct consumer research, which the industry had pioneered and which had been such an important factor in making it great.

At long last, they got around to giving consumers an automobile for transportation! As this was what the consumer wanted, the success of the compact car was inevitable. Lower first cost and lower upkeep are an unbearable combination so long as the required service is rendered.

Now that the housing industry is no longer selling just shelter, but must create or awaken demand, it can learn much from Detroit. As housing sales become more and more based on style factors, trade-ins, improved models, and all of the other paraphernalia of modern merchandising, the mortgage banker has work cut out for him. To succeed in this new world, he has to know more about it and he has to spread that knowledge with missionary zeal.

How does he do that? Education and research are the obvious—and only—answers.

MBA has done a good job with its School of Mortgage Banking. They are conducted on a high plane and render great service to the public in

raising standards of performance and professionalizing mortgage banking.

Your association has done an outstanding job on industry conferences. We, at New York University Graduate School of Business Administration, are very proud to have pioneered with you in this effort. From the very beginning, our most troublesome problem at the NYU Senior Conference has been to prevent it from getting so large that it would become unwieldy and prevent us from rendering optimum service. We have literally had to guard the door to preserve its character; and be it said to our credit that, poor though we are, we did so at substantial financial sacrifice, because we thought it best for mortgage banking and for the public.

In all candor, however, I must say that I think you should do more *within* the universities. You should encourage students—with subsidies if necessary; seek development of university courses and, yes, *programs of study* in mortgage banking. At schools where the need is obvious and where you have always received the necessary cooperation, such as your host schools, Northwestern University and New York University, you should consider setting up mortgage banking chairs. The resulting academic recognition and improvement in public understanding and the caliber of young people entering your field would make this extremely worthwhile. I urge you to consider carefully this need on your part.

This brings us to research: Some $15 billion will be spent on research this year by government, private and educational institutions, and industry. Of this amount, private industry will spend some $6 billion. What research do you contemplate in mortgage banking? What are you doing to find out how to meet the great increase in competition from every quarter? About the probable necessity for you to recast several aspects of your business?

Product *research* is needed in housing, as *housing must be improved enough to persuade satisfied home owners to shift to "new and improved" homes.* While you may say that this research, and market research also, are the problems of the builder, you cannot so easily escape responsibility. As the money men, you call the tune, and you can set the levels here, as elsewhere, by insisting on basing your financing on direct knowledge of the new forces in the market.

"Some $15 billion will be spent of research this year by government, private and educational institutions and industry. Of this amount, private industry will spend some $6 billion. What research do you contemplate in mortgage banking? What are you doing to find out how to meet the great increase in competition from every quarter? About the probable necessity for you to recast several aspects of your business?"

Market research, in particular, is imperative, as it is clear that the housing market is no longer a first home market. It has become, to a larger extent than generally realized, a replacement and trading-up market. But how much does anyone really know about that market?

Certainly, it is quite obvious that there are many hurdles which will have to be surmounted if that market is to be a profitable one. Some of these barriers are:

- Much higher expenses of today's teenagers;
- Increased number of families needing less living space because more children are leaving home, and at earlier ages;
- Sharply increased college costs; and the
- Growing difficulty of increasing the percentage of home ownership—going from the present 62 per cent to the predicted 80 per cent will certainly take a lot of doing! In this connection, it should be noted that in the 1955-60 period, the number of families increased only 4.5 million, but we built 5.9 million housing units; so, a substantial part of the housing construction was tied to the rise in percentage of home ownership.

Consideration of these roadblocks raises many questions of vital import to mortgage bankers financing housing. Questions such as:

- The relation of today's family costs—all of them—to disposable personal income? And the historical relationship?
- The number of families needing less space each year? And,
- At 62 per cent, how close are we to the saturation point in the level of home ownership?

No one has the answer to these questions. Market research is, thus, imperative now that the industry must rely on optional needs, most of which must be developed, rather than the basic necessity of shelter from the elements.

Another indication of the need for research is the substantial increase in vacancy rates in 1960. This indicates that buyers are becoming more selective, but does anyone know just what they do want?

After determination of all the facts, the housing industry may find it necessary to have a reorientation, such as the shift of the automobile industry to the compact cars.

In a dynamic economy such as ours, there is a great need for leadership. I know of no field where this is more true than home ownership.

It seems beyond question that such of these problems as pertain to your field should be studied on a coordinated basis. Given the leadership and the necessary support, this presents an opportunity for significant service to home financing and thus to the American people.

Now a final point: Consideration of the *public image* of mortgage banking. This is a much used and misused phrase in today's business world. But it is important, and it is something to which mortgage bankers should give earnest consideration.

The plain fact is that people in general have little idea of the services you offer; and such as they do know about they associate with the necessity of monthly payments on the mortgage and other painful or frictional contacts. In adjusting your operations to the competitive world of today, you should take concrete steps to develop a more favorable public image. One way, of course, would be the stressing, at every opportunity, of *all* of your services. Another would be through a foundation, such as the savings and loan industry has used with such outstanding success.

(Continued on page 33)

MONEY FOR MORTGAGES

PROJECTIONS of the demand and supply of funds that appeared late in 1959 indicated very clearly the decline in interest rates which actually occurred last year. Total demands for funds in 1960, these projections showed, would decline by more than one-fourth from the record level of 1959.

The Life Insurance Association of America, which makes excellent annual projections of the total uses and sources of funds each December, forecast a decline of $12 billion in the total demands for funds for 1960.

This projection of a sharp drop accurately foreshadowed the decline of interest rates that followed. Yet, in presenting this projection the Association concluded, "It is difficult to see how interest rates can decline appreciably in 1960. It seems likely that rates will at least remain firm at about present levels and that there is a good chance that they may go a little higher next year"—meaning for 1960.

Unless we have the courage to conclude that a $12 billion drop in the demand for funds in one year must lead to lower interest rates—regardless of what we would like to see—then projecting the uses and sources of funds is not going to be of much help in running an investment portfolio.

An instance of the need for judgment in using projections of uses and sources of funds, in appraising the outlook for interest rates was the wide difference in the projection of demand for long-term funds and for total funds for 1959.

Demands for long-term funds alone were only 6 per cent larger in 1959 than the year before. Despite the small size of the rise in demand for long-term funds, long-term interest rates rose quite sharply.

What was the reason?

The reason was a huge rise in short and intermediate-term borrowing by the Treasury, by business and by consumers. This great upsurge in short-term demand lifted the total demand for funds by a whopping 30 per cent over 1958. Look back through the years and you will see there are times when projections of long-term uses of funds alone give the correct clue to what long-term interest rates will do; and there are other times—1959 is the best example—when the total demand for funds gives the only reliable indication of what interest rates will do. When the supply of short-term funds is more than ample to meet the demand, as was the case in the earlier postwar years when government security holdings by commercial banks, financial institutions and others gave ample liquidity, increased short-term borrowing has little effect on longer-term interest rates. There is enough lending capacity at the short end of the market to take care of the larger demands.

But when the supply of short-term funds falls far short of the demand, as it did in 1959, then soaring yields on short-term securities draw funds away from long-term investing and lending, so that the supply of long-term funds is contracted and, as funds become scarce, long-term rates are pushed up along with short-term.

This was dramatized by what happened when the Treasury offered the "magic 5's" in the fall of 1959, and funds were drawn out of investing institutions to buy them so that savings institutions were under pressure to sell longer-term securities to meet withdrawals.

The drawing away of funds from the long-term market by very high short-term rates makes it necessary to look at total demand and supply of funds to make projections of practical use under such conditions.

The total uses of funds in 1961—and the "uses" side is the most important as a rule because it undergoes the most frequent and dramatic changes—are expected to total $39.8 billion. This would compare with $37.6 billion last year, and $54 billion in 1959. If this projection proves accurate, the demand for money in 1961 will remain more than one-fourth below the record 1959 level, and there will be no pressure on the demand side to raise interest rates and not too much pressure even to sustain them at current levels.

The demand for money comes from four main sources: mortgage borrowers, business borrowers, consumer borrowers and government. Since state and local government borrowing is fairly stable, we must look primarily at the prospect for Treasury borrowing in order to complete the picture.

As far as mortgage borrowing is concerned — and this is the largest single source of the demand for money in the American economy under present conditions—I doubt that the declining trend in such borrowing will be fully arrested in 1961, despite the increased availability of mortgage funds.

It was thought at first that the chief reason that housing starts declined in 1960 from the record number of 1959 was limited availability of mortgage money. But there are indications, growing in number, that what held down the number of housing starts last year has been more than unavailability of mortgage money. For example, vacancies of rental housing, according to an excellent analysis by

WHAT'S THE SUPPLY? WHAT'S THE DEMAND? WHAT ABOUT INTEREST RATES?

By **DR. JULES I. BOGEN**
NYU Professor of Finance

the Federal Reserve based on Bureau of the Census figures, have risen above 7 per cent of all available rental housing units, a postwar peak. The relatively sharp recent upturn in building of multiple-family houses, to judge from these figures, has more than satisfied demands for the country as a whole. Outside of metropolitan areas, the vacancy ratio is now more than 10 per cent.

From here on, these vacancy ratios will be worth looking at because the housing shortage is a thing of the past. Vacancies, as in the past, will be an indicator of prospective building activity, and hence of demand for mortgage money. They are also of significance to mortgage lending departments because a higher level of vacancies could indicate a higher proportion of delinquencies, especially for more marginal mortgages.

Other indicators that the number of new housing starts will remain well below the 1959 level are a slowly rising trend in delinquencies on small house mortgages reported by the Mortgage Bankers Association and increased resistance to new home sales in a number of areas, such as Texas.

There is one further reason why I doubt that the demand for mortgage money, which could make a big difference in the total demand for funds, will rise in 1961. The liberalization of terms which gave such a powerful stimulus to home building in the previous postwar recessions is not likely to be a material influence this time, since this process has gone about as far as it can go.

When we had recessions in 1949, in 1954 and in 1958, liberalization of mortgage lending terms gave a big push to home building. Lower down payments, longer maturities and consequent smaller monthly service payments on mortgages stimulated buying of homes.

Available statistics indicate that liberalization of mortgage terms has gone very nearly as far as it is likely to go. The average down payment on all homes financed with FHA mortgages has dropped from 15 per cent in 1955 to 8 per cent in 1959. FHA always has required some down payment, and an average of 8 per cent for all insured mortgages, including the larger liens, is about as low a level as we are likely to see. The average maturity of all FHA mortgages made in 1959 was 28 years. In 1955, four years before, it was 25 years. With such long maturities, further extensions reduce monthly payments very little.

Finally, the average size of the FHA mortgage in 1959 was $13,333 against only $10,287 in 1955. In four years, the average size of FHA mortgages has increased almost 30 per cent. Does not this indicate that lower income buyers have been priced out of the market for homes, and that this is a major obstacle to the kind of renewed upsurge in home building and mortgage borrowing that marked a return to easier mortgage market conditions in the past?

If building starts remain around 1,250,000 dwelling units in 1961, we would be doing relatively well. That would mean that the total demand for mortgage money would be near $16 billion, as compared with the total of over $19 billion in 1959.

▶ The demand for borrowed funds by the American economy, after reaching a peak in 1959, declined by over a fourth in 1960 and promises to undergo little recovery in 1961. The demand for funds for home building, for business investment and purchases of consumer durables could be somewhat smaller in 1961 than in 1960. The big question is whether the Federal Government will again be a borrower of new money in significant amounts.

▶ The supply of funds from savings institutions promises to be sustained, with a possible slowing up of the inflow of funds into savings and loan associations if there is shading of rates paid by associations in areas where high rates have been attracting savings from other parts of the country.

▶ The supply of funds from individual and miscellaneous, including foreign investors, will contract as lower yields discourage direct investment in fixed interest securities by these classes of holders. But these investors aren't needed to balance supply and demand with the decline in demands for funds.

▶ The big question mark as regards the supply of funds is what the commercial banks will do in the year ahead. The volume of funds they will supply will depend, first, upon Federal Reserve policy, which is subject to the conflicting influences of a sagging domestic business trend and a gold outflow that calls for higher interest rates to hold funds in this country and to attract funds from abroad under classic central banking policy, a policy which may not be adopted. It will depend, secondly, upon the willingness of banks to assume the risk of substantial depreciation of intermediate term investments in the next cyclical upturn in business and in interest rates.

The uses and sources estimates for 1961 point to these conclusions about the outlook for interest rates:

(Continued on page 33, Column 3)

Room at the

"IN THE world of U. S. real estate, the Tishman Realty & Construction Co., Inc., lately has been making news both good and bad. Not long ago, it dropped an option to buy a $12 million property in mid-Manhattan where it had planned to build a skyscraper, on the ground that "production of office space in New York City now is sufficient to meet the demand." A few days later, President Norman Tishman told security analysts that "the effects of our operations are cumulative, and should not be judged on a year-to-year basis." The remark doubtless was prompted by the fact that, owing to a slowdown in property sales, the concern's earnings in fiscal 1960 plummeted from $3.3 million to $1 million. At the same time, Mr. Tishman pointed to a sunnier side of the street: recent diversification moves soon will begin paying off handsomely for the company. Moreover, its rental income hit a seventh successive high this year, will top that record in 1961, and should create "our own millennium" around 1967, when certain lease renewals automatically begin raising revenues. Finally, rushing ahead with construction of apartments, Tishman plans to complete six new projects in five cities by 1962.

The balancing of pros and cons in the Tishman outlook symbolizes the contrary trends now evident in the world of real estate. On the one hand, plenty of investors, large and small, are willing to bet that values have yet to reach their peak. The year 1960 is estimated to have seen a total of $1.5 billion in realty syndications, second highest volume on record. Moreover, many of the syndicators, sensing an even wider market, began to reorganize as public corporations. Their stock offerings were joined by others from promoters, builders and realty operators well-known to the trade but new to Wall Street. Something else now looms on the horizon: the real estate investment trust, a mutual fund brimming over not with stocks and bonds but with titles, leases and liens. In the view of many observers, this device will add millions of investors to those who already have an equity, however tiny, in office buildings, factories, stores, apartment houses and hotels across the country.

There is, in short, interest aplenty in real estate investment. On the other hand, a few straws in the winter wind suggest that, in some areas at least, the market may be nearing, or even receding from, its peak. On many kinds of property, the generous markups of recent years may be less easy to come by in the future. For as more and more new construction comes on the market, the underlying value of many older properties has begun to slip. Particularly is this true of office buildings in many cities, where the vacancy rate is on the rise. Sooner or later, supply is likely to outrun even today's aggressive demand. Just when that day will arrive, no man is wise enough to say. Nonetheless, it is worth noting that informed observers are taking an increasingly cautious view of the market.

The roll of publicly-owned firms dealing primarily in real estate these days is a long one. It includes, for example, such well-known concerns as Loew's Theatres and the diversified City Investing Co., both listed on the Big Board. Then there are hotel chains, such as Hilton Hotels Corp., Sheraton Corp., Knott Hotels Corp., Hotel Corp. of America and the Statler Hotels Delaware Corp. Covering a broad range of realty operations are Canal-Randolph, Inc., which controls among other properties, United Stockyards; and United Improvement & Investing Corp. Among the better-known construction companies are the resort hotel builder, Taylor International, and the developers of urban and suburban land, Arvida Corp., Lefcourt Realty, All-State Properties, General Development, Tishman and Webb & Knapp.

In recent months, many another real estate firm has gone public. Two of these are builders and developers of residential property: Levitt Corp., of Levittown fame, and First National Realty Corp. A third, Sachar Properties, Inc., is a wholesaler of unimproved New York suburban land, which the promoter, apartment-builder Louis Sachar, plans to sell to and to develop through his several privately-owned companies. (Mr. Sachar hopes the entire operation one day can be consolidated.) Still another, Major Realty Corp., a New York land-development firm, this year will begin its first large project: the federally-assisted $95 million redevelopment of a 27-acre site in downtown Newark. Bigger by far than any of the foregoing is the prominent New York and Philadelphia constructor-operator of office buildings, Uris Buildings Corp., which first sold shares publicly last May. Uris has bluechip

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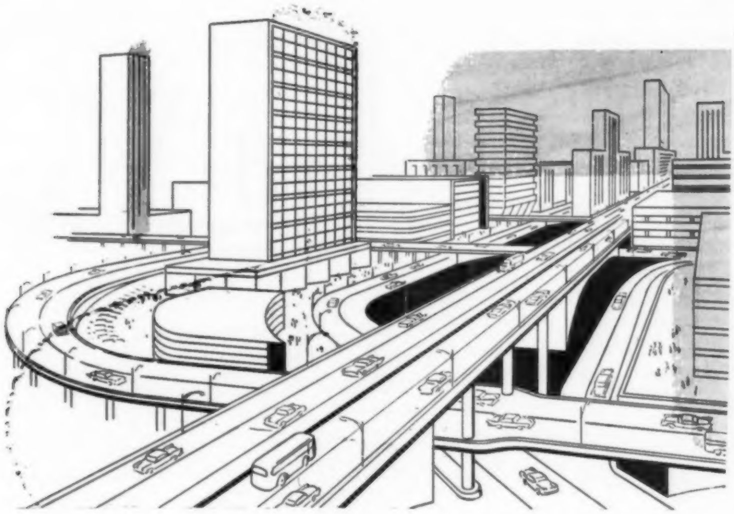


During the long upward movement in real estate, one of the places where one could look for guidance and clues as to prevailing trends has been the large-scale operator and investor in real estate—and mostly the precise place has been New York. The emergence of the syndicate, and more recently the publicly held real estate corporation, these and other developments have characterized the active turnover in large real estate properties. How do these large developers view the real estate outlook now, what trends can be discerned from what they are doing? This is that report, as reprinted from Barron's with permission.

skyscrapers completed and under construction with net appraised value, beyond mortgages, of $70 million.

In addition, the stock market lately has welcomed no fewer than eight new companies from the ranks of the syndicators. Realty Equities Corp. is the only one which was not well known in that field prior to becoming publicly-owned. The firm has adopted a flexible policy of building, buying, selling for gains, operating, syndicating and mortgage servicing. Its $20-million portfolio contains some 50 properties ranging from supermarkets to luxury apartments.

More typically, existing syndicates have combined their holdings into a single corporate package, and then issued stock. A case in point is Transnation Realty Corp., a concern which went public last August after being formed out of some of the holdings of Walter J. Schneider, a leading syndicator, and Henry Goelet, a private developer of co-operative apartment houses. Transnation owns large residential and commercial properties in New York, Philadelphia and Atlanta.

Again, H. R. Weissberg Corp. was put together from properties owned or syndicated by its promoter, Herbert

By **J. RICHARD ELLIOTT, JR.**

Weissberg, a specialist in hotels. The new firm, which made its first public offering of stock last month, begins with four hostelries in Manhattan and one each in Baltimore and Miami Beach. Similarly, a company currently in registration, Transcontinental Investing Corp., will start out with assets acquired from the syndicating group of Lifton, Hechler and Weingrow. Among its 20 properties—hotels, motels, office and apartment buildings throughout the country—is the Dinkler chain of large southern hotels, acquired in a recent merger.

The remaining four newcomers, which represent reorganizations into public companies by some of the nation's most prominent syndicators, are perhaps the most important. Latest on the scene, and smallest of the four, is Tenney Corp., organized by 33-year-old Jerry M. Tenney, with about $22 million worth of properties, including office buildings in Manhattan and Washington; apartment houses in Houston and Bridgeport; hotels in Ottawa and Orlando; the Waverly Terminal in Elizabeth, N. J.; assorted motels and a theater.

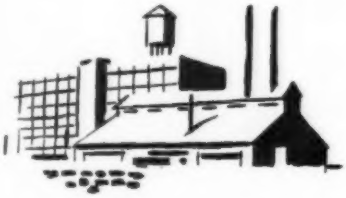
Somewhat larger is The Futterman Corp. (it went public last spring) headed by 32-year-old Robert A. Futterman, with some $40 million in major properties located in 23 U.S. cities. Among these are office buildings in Indianapolis, Baton Rouge, Seattle, Tulsa, Grand Rapids, Norfolk, Kansas City, Cincinnati, Chicago and New York, as well as apartment houses in Washington, Kansas City, and Glassmanor, Maryland. Regarded as one of the industry's experts on nationwide urban trends, Futterman currently is participating in many redevelopment projects. His company also has formed a hotel-motel division to service its own properties and to seek further acquisitions.

Bigger yet is Glickman Corp., formed by Louis J. Glickman, best-known syndicator in the business. Including $19 million in leaseholds and improvements at cost, Glickman Corp.'s properties come to well over $60 million. Predominantly major office buildings, these include the General Motors, 501 Fifth Ave., 42 Broadway, and 37 Wall Street buildings, the Manhattan Industrial Center and the Commodore Hotel in New York, as well as important properties in Baltimore, Chicago, Los Angeles, Houston, Newark and Toronto. Glickman also currently is active in construction of several large luxury and middle-income apartment buildings in New York and Los Angeles. Furthermore, the company already has used the proceeds from a stock offering in November (following an unsuccessful attempt in 1959) to acquire a $5 million, 10-acre industrial park in Waterbury, Conn.

Largest of all is the Kratter Corp., one of the fastest-growing corporations in U.S. realty and first of the one-time syndicate groups to go public. Headed by Marvin Kratter, the man who bought Ebbets Field from the departed Brooklyn Dodgers, the company now holds nearly $100 million worth of buildings and leaseholds, including the Graybar, Fawcett, Kratter, Lunt-Fontaine Theatre and 405 Park Ave. buildings, and the St. Regis Hotel and several strategic parcels of land (plus "air rights" over the approaches to the George Washington Bridge) in New York City; the Americana Hotel in Miami Beach; the sprawling Thorncliffe Park apartments in Toronto; and ten other buildings scattered from Connecticut to California. Except for the contemplated acquisition of a major New York manufacturing concern, now in negotiation, Kratter's forthcoming deals involve new construction of low- and middle-income residential buildings, located primarily in the New York City area, and financed by New York State.

So much, then, for the roster. How are these firms doing in their new roles as public corporations? Results, where available, though in most cases too fragmentary for meaningful comparisons, generally have been favorable. Thus, Realty Equities, which reported gross revenues (profit on sales plus rental income) of $705,000 for all of 1959, showed more than $1.1 million for the first nine months of 1960, owing largely to a big increase in rents. Estimated net for the full year is $163,000, or about 54 cents on each of the shares now outstanding.

Similarly, Kratter Corp. virtually has doubled its earnings in the past year. The latest available report, covering 12 months ended last April, showed income before depreciation and amortization of $4.5 million, or $1.59 per share. Of this sum, $1.2 million, or 45 cents per share, went to reduce mortgage debt, leaving a cash flow of $1.11. (Since depreciation more than offset the latter figure, Kratter had no income reportable for federal taxes.) Cash flow available for distribution to shareholders, however, is running well ahead of this, permitting dividends at an annual rate of $1.44 per share, compared with a payout of 84 cents at the time of



"In some quarters today, a new spirit of caution about the future of many kinds of real estate is in evidence. For this attitude there are several reasons. For one thing, after a few years the very device by which high returns can be engineered early in the life of a property—the combination of heavy depreciation and small payments for amortization—begins to boomerang. Typically, when fast write-offs have been employed, tax-free status ends in four to seven years. At this point, the property either must be refinanced, if the money market is hospitable, or replaced by another which is higher-yielding. With an eye to future refinancing, the realty companies today are watching such promising developments as the easing of interest rates and the availability from union welfare and pension trusts of funds for lending."

the 1959 offering. Moreover, 12-month gross income through December may approximate $8 million.

These results, it is worth noting, have been achieved in various ways. Some of the realty companies stress broad geographic diversification, while others are concentrated in a single city. Some specialize in apartment houses, while others lean to office buildings or even to bowling alleys or country clubs. Some major in new construction, while others trade in existing properties. Equally varied are the financial techniques of the respective promoters, who constitute one of the liveliest clans of that supposedly dying breed, the self-made man. The desire of one to own and operate his own buildings contrasts sharply with another's policy of creating operating leaseholds, and with the proclivity of a third to wheel-and-deal.

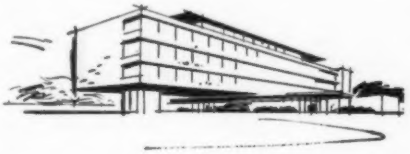
As to location, some companies are heading west and south, while others draw into the New York area. Futterman, for example, is engaged actively in redevelopment projects in Akron, Atlanta and Norfolk; though the company is based in New York, most of its assets lie west of the Hudson.

Similarly, Transnation is seeking to spread out nationally. The firm's principal target at present is Philadelphia, where it has launched some Manhattan-style co-operative apartments. It hopes to follow suit in Chicago, Cleveland and other mid-western cities. Transcontinental Realty, for its part, has headed south, through acquisition of the Dinkler hotels (Atlanta, Birmingham, Nashville, Decatur, Ga., etc.) and the recent purchase of a new Houston office building.

A contrasting approach has been taken by Messrs. Glickman, Tenney and Kratter. The first states frankly that "Los Angeles and New York are the two best cities in the business today;" hence, Glickman Corp. has concentrated its new luxury- and middle-income apartments in Gotham. Tenney also calls New York "the best market in the world." While Tenney Corp. properties are scattered widely, the firm's biggest plans now revolve around Manhattan. Kratter recently backed out of a whopping project in California's Beverly Hills to concentrate on New York. Besides the prospective acquisition of the large factory uptown ("Not to enter the manufacturing field, just for the real estate," says Mr. Kratter, "and possibly for the benefit of a Big Board listing"), the company is busy with plans for new low-priced apartments over the Manhattan-entry span of the George Washington Bridge, as well as a companion structure on the New Jersey side, which would be the state's tallest residential building.

A second divergence of views shows up in the kinds of properties now attracting the several firms. Uris and appear to have altered their original policies. "At the moment, both are construction companies," says a competitor derisively. "If things ever get rough in this country," replies Mr. Kratter, "the new buildings will be the ones still fully occupied—whether it's office space or residential."

Finally, the new firms also boast different operating philosophies. Uris, for example, prefers to operate its own properties, retire the debt rapidly and enhance the equity. Realty Eq-



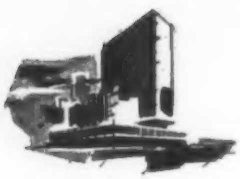
". . . plenty of investors, large and small, are willing to bet that (real estate) values have yet to reach their peak. The year 1960 is estimated to have seen a total of $1.5 billion in realty syndications, second highest volume on record. Moreover, many of the syndicators, sensing an even wider market, began to reorganize as public corporations. Their stock offerings were joined by others from promoters, builders and realty operators well-known to the trade but new to Wall Street. Something else now looms on the horizon: the real estate investment trust, a mutual fund brimming over not with stocks and bonds but with titles, leases and liens. In the view of many observers, this device will add millions of investors to those who already have an equity, however tiny, in office buildings, factories, stores, apartment houses and hotels across the country."

others remain steadfastly committed to office buildings, while Tishman, as noted, has begun placing its bets on apartments. Among the newer companies, too, the trend is toward residential realty. In the case of Realty Equities, both apartment houses and one-family homes are in the works, while Kratter's emphasis is on low-income, state-supported apartment buildings, which limit profits, but fit the New York City market.

A third difference centers around the question of whether to buy or to build. Most companies still are predominantly buyers—indeed, traders—and are shopping the nation for bargains. The exception here is Uris Builders. Realty Equities intends to continue turning over 50 to 60 properties annually. Futterman, too, despite its urban-redevelopment projects, remains primarily a buyer of standing assets.

Glickman and Kratter, however, uities, in its non-syndicated deals, also prefers to operate rather than lease, as the most feasible way to achieve quick improvements and a fast re-sale. This also is the Futterman concept. "We are manufacturers of space," says Mr. Futterman. "Our motive is to enhance our property and thus to preserve our investment. In doing so, we employ local management—generally the building's former personnel—and often, in a major out-of-town building, this is the clincher in our getting the nod from the sellers."

Many another realty man, however, disagrees. According to Mr. Kratter, for instance, building-management is the riskiest and generally least rewarding phase of the business. "This is a principal problem with many owner-operators," he says. "The headaches of signing tenants, replacing leases and plumbing fixtures, worrying over a rise in taxes and a hundred other unexpected things all are best left to



"Last year nearly 250,000 units—20 per cent of all new housing—were rental apartments. Surveys indicate that such construction in the Sixties may average 400,000 units a year. The reason is simple: 85 per cent of newlyweds, older couples, bachelors, widows and widowers, all population groups that now are increasing disproportionately, prefer flats to houses. The next decade should see the formation of some five million new households, headed by young men between 20 and 25. In contrast, the age group that prefers home ownership—those 30 to 40, for example—will decline in the Sixties."

experts. We want to be experts in making a profit, and we prefer the blue-ribbon safety of fixed annual rentals guaranteed by a triple-A leaseholder." Mr. Glickman, who is generally conceded to have invented the sale-and-leaseback technique, agrees. From its first deal to its latest, the Commodore Hotel, Glickman Corp. has held out for leaseholds.

Now looming on the horizon is another type of organization: the real estate investment trust. With the passage of U. S. Public Law 86-779 by the recent special session of Congress, this has become the hottest prospect in the trade. Such a realty-owning mutual fund and its shareholders henceforth will be free of double taxation, provided 90 per cent of income is distributed as dividends. The new law, according to one attorney, promises "a new, exciting and profitable era" for syndicators and other realty operators.

Most of the publicity swirling about the new investment medium has involved possible changes in the structure of various existing companies. (Early predictions that hotel chains and even railroads might profit from the new law by spinning off realty-holding subsidiaries have been dampened by reports that the Treasury opposes such moves.) Realty firms such as the former syndicator groups are believed widely to qualify for reorganization, but none has done so yet. A principal reason is that New York corporations probably cannot become realty investment trusts unless and until Albany changes the state laws.

There are, however, a few such trusts in existence, all located in Massachusetts, where the lobbying for federal legislation began. Largest and best-known of these is Real Estate Investment Trust of America, traded on the American Exchange; a recent Wiesenberger report noted that application of the new law would double the company's earnings overnight. At a recent convention of realtors in Dallas, a visitor counted 60 real estate operators around the country (all outside New York) who indicated definite interest in setting up a qualifying trust.

Yet the real value of the new law to real estate—and to the new public corporations in particular—may have been overlooked. This is its inevitable spur to demand. If just ten of the 60 prospective trusts are launched in 1961, with only the minimum success achieved by a comparable group of pioneer mutual funds nearly 30 years ago, as much as $100 million in new capital could be channeled into the realty market. Mused the head of one of the new publicly-owned corporations recently: "You wonder where we're going to sell our properties? The trusts will be falling over each other bidding for them."

Whether this appraisal will prove accurate remains to be seen. In some quarters today, a new spirit of caution about the future of many kinds of real estate is in evidence. For this attitude there are several reasons. For one thing, after a few years the very device by which high returns can be engineered early in the life of a property—the combination of heavy depreciation and small payments for amortization—begins to boomerang. Typically, when fast write-offs have been employed, tax-free status ends in four to seven years. At this point, the property either must be refinanced, if the money market is hospitable, or replaced by another which is higher-yielding.

With an eye to future refinancing, the realty companies today are watching such promising developments as the easing of interest rates and the availability from union welfare and pension trusts of funds for lending. Nonetheless, no company planning three or four years ahead can take refinancing for granted. For that reason, the question of ability to sell low-yielding properties remains paramount. Recently, of course, such sales have presented no great difficulty. In the past three years, they have netted Tishman some $13 million. Webb & Knapp, for its part, claims $17 million in such profits for 1959 alone. Realty Equities, too, has capitalized on the hungry market, reporting profits of nearly $500,000 in the first nine months of the year through sales of realty and purchase contracts alone.

In the future, however, such generous mark-ups may not be so easy to come by. One inhibiting factor is the cost at which realty companies today are acquiring their properties. Many of the former syndicates appear to have paid dearly to induce their original partners to sell, and the partnerships themselves, it seems, started out by bidding high.

A noted real estate analyst puts it bluntly: "Most of these syndicate properties were acquired for 10 times their cash 'throw-off,' so that they could yield 10 per cent to the syndicate, fully rented. The corporations subsequently formed took them on at higher values, since yields on stock could be even lower; and, finally, some of the stocks went up in price after that. Where can they go from there except downward, if the probable maximum on underlying values already has been discounted?"

One of the Glickman properties, more widely publicized than most, offers a prime example. According to usually reliable trade appraisers, the mid-Manhattan building in 1955 had a market value of $4.5 million; shortly after that, it was sold to Mr. Glickman for around $8 million. He in turn syndicated it for $9.4 million in 1958. Finally, when the building was turned over to Glickman Corp. by the syndicating partners this year, it carried a price of over $10 million.

"All the while," says an observer wryly, "the building remained the same old building."

The situation in New York City, however, is strikingly different. Because the Big Town represents virtually the last outpost of rent control, its development has not followed national patterns. Thus, though a real need exists for lower- and middle-income housing, most builders, to earn a profit, have had to concentrate almost exclusively on so-called luxury apartments (or federally- and state-supported ones).

The boom in private Manhattan construction thus has created little except apartments renting for $50 to upwards of $75 per room. These by now may be in over-supply. Builders lately have begun making "concessions" (one or two months' free rent) to prospective tenants. Newly completed co-operative apartment buildings often fail to fill up for six months to a year. Moreover, the current business slump is beginning to take its toll of luxury-apartment residents. Free-spending bachelors and bachelor-girls in New York, who move "up" in good times, reportedly are dropping their leases and squeezing back into the town's already crowded middle-income facilities.

As for office buildings, while conditions naturally vary greatly from city to city, the average vacancy rate across the U. S. today is 4.82 per cent, or just a shade under the traditional danger point of 5 per cent for such space. In some areas, moreover, that danger point has been passed. Kansas City, a typical "growth city," currently has a 7.5 per cent vacancy rate; Louisville has one of 8.2 per cent. More significant yet, two cities in the South, Jacksonville and Fort Worth, have over 14 per cent of available office space unoccupied.

In the nation's most dynamic office-building market, admittedly, no such danger signs yet have appeared. The vacancy rate in New York City is only 2.4 per cent—higher than at any time since World War II, but still safely under the national average and, indeed, under that of any other major city. And this despite the fact that since 1947, half again as much office space has been added in Gotham as exists in all of Chicago. During this $2 billion-plus spree of Manhattan office building, rents and prices have climbed consistently.

Moreover, beyond the disadvantage of high original cost, structures to be sold several years hence will be, after all, that much older. In recent times, real estate, unlike most other kinds of property, generally has appreciated just by standing still. The "depreciation" taken against taxable earnings, in short, has had little basis in fact. Furthermore, instead of putting such depreciation to use toward replacement or renovation of property, realty companies more frequently have been distributing it, in effect, to their investors as dividends. Contrary to recent appearances, the underlying value of many older properties clearly is lessening as more new construction comes on the market.

The real force at work here has

been inflation. Within the past few years, prices of big-city properties, as noted, have doubled and trebled. Much of this rise stems from the relentless increase in construction costs—as well as a growing shortage of well-located downtown land—which has boosted prices not only on new buildings, but also on old ones that are located fortuitously. However, to what extent will property values continue to rise?

As to residential construction, the trends are mixed. While population growth clearly argues for more housing space, the latter is likely to be increasingly in apartment units rather than homes, which have been in the van of the postwar boom. Against the average 40 per cent-50 per cent of new dwelling units built for rental in the pre-depression (and pre-FHA, and pre-VA) 'twenties, the postwar norm has been less than 10 per cent.

Last year, however, nearly 250,000 units—20 per cent of all new housing—were rental apartments. Surveys indicate that such construction in the 'sixties may average 400,000 units a year. The reason is simple: 85 per cent of newlyweds, older couples, bachelors, widows and widowers, all population groups that now are increasing disproportionately, prefer flats to houses. The next decade should see the formation of some five million new households, headed by young men between 20 and 25. In contrast, the age group that prefers home ownership—those 30 to 40, for example—will decline in the 'sixties.

One day soon, nonetheless, a crack may appear in the picture-window facades of the nation's skyscrapers. True, demand for new office space—from out-of-town companies moving into the city and from existing firms expanding—continues to exceed supply. By mid-1963, 24 buildings now under construction will add some 20 million square feet to the city's present 130 million square feet. Plans for still others have been announced. What's more, rental agencies are having no trouble filling all this space. Over a million square feet of the 2.4-million-foot Pan American Building, to rise atop Grand Central Station, already have been taken on long-term leases. As for the 1.5-million-foot 277 Park Ave. Building, 600,000 square feet, according to Cross & Brown, are about to be signed. In each case, this is sufficient basis for the builders to proceed with construction financing. Structures scheduled for completion in 1961, moreover, already are 85 per cent to 100 per cent rented, mostly on long-term leases.

Meanwhile, however, older buildings are showing signs of strain. Vacancy advertisements have begun to appear in the windows of some prewar structures. Some of the midtown office buildings erected in the last major construction boom, in the late 'twenties and early 'thirties, are losing tenants to newer rivals, and not easily replacing them. In many cases, the device of double-tenancies hides this fact from published statistics on vacancy rates. Under this practice, builders take on the remainder of a tenant's long-term lease in an old structure to induce him to move to new quarters. Uncounted thousands of square feet of New York office space—little, of course, in prime locations—thus are standing vacant, even though rents still are being collected.

There is some reason to believe, then, that the current building boom in Gotham may have reached its climax. In this regard, it is well to recall the experience of a generation ago. Despite the stock market crash in 1929, many of the city's most imposing skyscrapers actually went up during the next four years, in most cases because plans already had gone too far to stop. Cornerstones dated 1930, 1931, and 1932 abound in town, prompting one noted author to observe several years ago that the biggest office buildings always are built at the end of a boom. With foundations now being laid for such massive new edifices as the Grand Central Building, history perhaps may be ready to repeat.

▶ AREAS OF GROWTH: The largest block of life company investments is in the five states of the East North Central region, and the greatest percentage gains in such investments occurred in the Mountain and South Atlantic States.

The $17,045,878,000 of life company investments in the five midwest states of Ohio, Indiana, Illinois, Michigan and Wisconsin, at the start of last year, were 20 per cent of the U. S. investments of the companies surveyed. Adding the investments in the remaining midwest states of Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas, the total in the midwest was $23,782,997,000 or nearly 30 per cent of the U. S. total.

Largest percentage gain has been in the Mountain States.

President's Page

IMPRESSIONS OF THE MOMENT OF A BUSY BUSINESS

DOING a stint as president of MBA provides some unique and unusual opportunities for gaining an insight into what is current and what is important in mortgage banking. You are afforded the opportunity to see, first-hand, conditions in many varied sections and talk to all the many diverse elements which contribute, in some way or another, to the whole of mortgage investment. That has been my privilege in the past three months and possibly my chief impression has been the look and feel of solidarity of our business. Almost equally important is an impression that we are headed in many new directions, that many new opportunities are unfolding to challenge our ingenuity and, further, that many of the old ways will be giving way to the new. These, then, are some random impressions from, you might say, literally *living MBA* since the Chicago Convention.

Robert Tharpe

▶ Good mortgages are again in high investment favor, principally because they are in a good competitive position. But, over and above that, I sense a re-awakening on the part of institutional investors that a good mortgage is, after all, just about the most satisfactory and dependable investment medium. For the near-term, it appears that the demand for good loans will out-run the supply.

▶ Housing and housing financing are "still in politics" as much as ever. Some of the recent "task force" reports reflect this conclusion. Some of these proposals are unsound and unworkable but they do indicate how housing and housing financing in many minds are still closely identified with matters political. However, I think it is obvious that the new Administration is off to a good start—and on a careful and conservative basis. I could be wrong but as of now I'm not expecting any drastic legislation from Washington. Some liberal proposals, yes, quite liberal in fact, but nothing completely unreasonable—I hope.

▶ I find that there has at last developed a rather general conclusion among a great many that the old device of liberalizing mortgage credit, terms, rates, procedures, etc., to spur housing has about come to the end of the road, that the magic is gone and that in the future other methods will have to do—mostly, it seems, more quality in construction and—somehow and in some way—lower costs.

▶ I'm greatly impressed with the increasing solidarity of the investor-correspondent team—and no fact is more important. I have the feeling that the economics of this relationship have been analyzed, dissected and appraised—and found sound. Not that there isn't room for improvement—we all know there is; but, basically, I'm impressed by what I consider a renewed appreciation of the worth and value of this traditional combination of interests.

▶ I am intrigued by a development which began last summer—and which some mortgage bankers may have forgotten about by now. It's selling FHA loans to individuals. No one—ourselves or FHA—felt this was going to be "a big deal." It was a good move, all agreed, principally for the long term future. But many mortgage bankers in a modest way have taken hold of the idea and are selling loans. One member has sold more than $250,000 of mortgages, another an equal amount. Before the year ends, I suspect total over-all sales will be rather impressive.

▶ I certainly like the looks of this attractive new market for our mortgages—the pension trusts. Slowly but surely, headway is being made, slowly but surely these investment officers are gaining a clearer understanding of the what-and-how of mortgage investment.

▶ The real estate investment trust has become one of the hottest subjects today. There may be more than 100 in the talking or planning stage right now, at least five have filed SEC registrations and more have announced rather specific plans. There are a lot of hazards and obstacles (we'll have some experts' opinions at the Chicago Conference) but the general direction is now clear: this is going to be an exciting development for real estate and for a wider investment in mortgage loans.

▶ In talking with many investors I'm continually impressed with what they see ahead as far as their own thinking is concerned: increased interest in commercial and industrial loans with, naturally, a proportionate decreased interest in residential. It's a fact not to lose sight of because it is a trend. In several speeches at the NYU and SMU Conferences, and in our Quarterly Economic Report, we again were given some rather widely circulated figures which every mortgage banker ought to know. The age group that has been supplying the great impetus to home ownership (25 to 44) will show only a small increase, if any, in the immediate years ahead—but the big increase will be in the group under 25 which will want principally rental housing. It's a new direction in the market for housing and we should be aware of its many implications.

Sincerely,

PRESIDENT

It Pays to Put Quality in Housing

Great and profound are the underlying trends running strong throughout the entire vast structure of housing, pointing the directions we can expect to travel in the future. One is sure to be increasingly emphasized—more quality in housing, more quality because the desire for it and the ability to pay for it will be strong. And quality pays, as Dr. Newcomb shows graphically in considering only one component, insulation. Another factor likely to loom larger than is generally appreciated now is the vastly different age groups which will dominate the housing markets in the years ahead—their wishes and desires can't be met by merely following what has been done in the past.

By DR. ROBINSON NEWCOMB
Construction Economist

HOUSING markets are becoming buyers' markets. This is fortunate for householders as a whole, and for the economy. But it means that successful builders must give more for the money and must keep abreast of changing markets if they are to stay in business.

They want to stay in business. Dun and Bradstreet data, however, indicate that even in the relatively prosperous last half of the fifties, builder failure rates were two times as high as failure for business as a whole.

The government has tended to emphasize attacks on the cost of money in its efforts to enlarge the housing market. The cost of money, as such, can be cut from time to time. The monthly payment on a 30-year, 4 per cent mortgage, for instance, is 40 per cent less than the monthly payment on a 15-year, 6 per cent mortgage.

But, unfortunately, this approach—while cutting the cost of money—has at times *increased* the cost of the house. A recent United Nations report put it, "the question arises whether the type of intervention practiced by governments has not tended to diminish the incentives towards technical improvement." It is gratifying that FHA is officially recognizing that cuts in any part of the cost of homes are important. Savings in construction, overhead and sales costs are important. This has been recognized in the past. But so are savings in maintenance and operation costs. Any saving which results in a net reduction in his total monthly cost, without adding correspondingly to the number of months, is helpful to the buyer, and if allowed for in the financing arrangements, becomes helpful to the builder.

As an illustration, if an addition of $100 to the capital cost, as a result of improvements in quality, such as better insulation, reduces the heating bill by an average of say $3.75 per month, and the extra $100 capital cost means an addition of 65¢ to the monthly mortgage charge, the buyer is still ahead by over $3 per month. For each additional cent he spends each month on the mortgage he saves nearly 6¢ on his fuel bills. That is nearly a six to one return to him.

The FHA says such savings can be recognized in computing customer income expense ratios.

If the net fuel saving resulting from better insulation, less the additional mortgage cost, turns out to be $3 per month, or $36 per year, this may mean that the income the FHA judges to be required to support the house may be reduced by $250 or more—that is, if a given house with FHA minimum insulation is sold for $14,650, and the FHA judges that the buyer should have an income of $7,325, that same house if better insulated may sell for about $14,750, but the buyer need have an income of only $7,075. And it means that while the monthly payments on the minimum insulation house may total about $150, the monthly payments on the better insulated house need be only $147. Not only does this mean that a customer can live in a well insulated house more cheaply, it means also that more customers can buy the insulated house than can buy the one with minimum insulation.

Improving the quality while cutting the cost may increase the market by possibly 5 per cent. The chances of finding a $7,100 a year income family on the market for a well-insulated house may be 5 per cent better than the chances of finding a $7,325 income family in the market for a house insulated to minimum extent.

After allowing for such things as the influence of areas south of the Mason Dixon line, for the number of customers without money problems, for the number who may do some of their own building, etc., it may be a

reasonable estimate to say that adjustments for maintenance and operating savings of the sort suggested may add over 5 per cent to the housing market.

But it is dangerous to talk about housing markets as a whole. The housing market is composed of many different markets. The market for young, newly-marrieds is quite different from that for families who have been married 10 years and have three rapidly growing children. The market for families entering retirement is different too.

Nearly half of the net increase in husband-wife households from 1955-60 was in the age group 30-54, and over 22 per cent was in the second-time market age group 30-44. Less than 10 per cent of the net increase was in the under 25 age group, and less than 9 per cent was in the 25-29 group. The high income, large family buyers, dominated the market from 1955-60.

The story from 1960-65 will be quite different. Nearly 30 per cent of the net increase in husband-wife families is now in the age group under 25. This is three times the proportionate increase in this age group from 1955-60. And this group buys few houses.

The age group 25-29 buy more houses, but they tend to buy relatively inexpensive ones. The age group 30-44 buys most heavily—and it buys the larger houses. This is the good-income, large-family market. But there is almost no increase in the number of husband-wife households in this age group. The main support of the large house market has stopped growing.

There will be some market in this age group in the form of upgrading. Even though this population is static, its income will rise, and it will vacate some housing it now occupies for better houses yet to be built. But, as it does so, it will tend to create vacancies. New sales to this group will be made almost entirely by creating vacancies, which will compete for lower income markets which will further reduce the market for houses say for families 25-29 years of age.

The number in the 45-54 group is still rising, but its rise has been cut by about 20 per cent. This group buys large houses, but not as freely as the 30-44 age group. Many of its sales tend to be "wash" sales, a three bedroom house in one city is sold when the family moves, and another three bed room house is bought in the city to which the family moves, for instance. This does not take many houses off the market—it is largely an exchange of houses.

There will be some upgrading of housing in this age bracket. But as children are leaving, or will be leaving home, there is less incentive to upgrade in this age bracket than in the 30-44 group.

This leaves the ages 25-29 and 55 plus as the main potential buying ages for 1960-65. The rise in the big buying age group of the Fifties, the 30-44 age group, is gone. It won't be back in any volume for about 10 years.

But what sort of quarters do families aged 25-29, and 55 and over buy?

Obviously they want smaller, cheaper houses. Not many of the families under 30 have reached their peak in earning power. And they know it. They expect to be able to buy bigger and better houses later—or to be able to improve the houses they have later. They do not tend to live in $20,000 or $25,000 houses. They want, and get, less expensive homes.

Similarly families whose children have left, and who are looking for new quarters want smaller homes and often less expensive homes. The 55 and up age group is expected to account for over 35 per cent of the growth in husband-wife families, and 50 per cent of the growth in all households — including those headed by widows, widowers, etc., from 1960-65.

In the Fifties, when housing was in less adequate supply, the demand came in much larger proportions from families aged 30-45. These were families who could more readily afford good housing. The size of the down payment, and the monthly payment, affected a smaller proportion of such buyers in the Fifties than it may affect of the new model types of buyers in the 60s—the young and the old.

▶ 1960 MORTGAGE RECORD: Over $6,100,000,000 of mortgages were acquired by the life companies in 1960, the Institute of Life Insurance reports. This represented a 2 per cent increase over the previous year and is a larger amount than the total mortgage holdings of the life companies only twenty years ago.

Aggregate mortgage holdings on homes, farms and commercial plant facilities throughout the country, reached a record $41,750,000,000 at the year-end, a gain of 7 per cent in 1960.

About three-fifths of the 1960 mortgage total represents loans on non-farm one-to-four family homes.

Conventional urban mortgages on homes and commercial properties accounted for $3,875,000,000 or nearly two-thirds of the mortgages acquired by the life companies. This was some $185,000,000 more than 1959 acquisitions. Aggregate holdings of conventional mortgages reached $22,500,000,000 at year-end and represented well over one-half of the total mortgages.

FHA mortgages acquired amounted to $1,400,000,000, about 11 per cent less than 1959 acquisitions. Holdings of FHAs at the close of the year were $9,300,000,000, the second largest mortgage category with 22 per cent of the aggregate.

VA mortgages accounted for $325,000,000 of 1960 acquisitions, 60 per cent more than the amount in 1959. However, the total holdings of VA mortgages decreased 2 per cent in 1960 and amounted to $6,950,000,000 at year-end, 17 per cent of the mortgage total.

Farm mortgage loans acquired in 1960 totaled $500,000,000, the same amount as the previous year. Total farm mortgage holdings at the year's close were $3,000,000,000, or 7 per cent of mortgage investments.

The Institute says the outlook for mortgage financing in 1961 is good. Life insurance should maintain its position as current holder of about one-fifth of the nation's mortgage debt. More capital funds will be available for mortgage financing with the growth being determined by the extent of housing and plant construction in the nation.

Carl Gusoskey Is St. Louis MBA President

Carl W. Gusoskey, real estate officer for the St. Louis Union Trust Company, was elected president of the St. Louis MBA for the coming year, succeeding Chester O. Disse, vice president of Vorhof-Duenke Investment Company. George Wm. McDonald, vice president, Farm and Home Savings Association, was elected vice president and Frank X. Fitzpatrice, real estate officer, Mercantile Trust Company, was elected treasurer and Fred A. Frey, vice president, L. E. Mahan and Company, was named secretary. Above, Messrs. McDonald, Disse, Gusoskey, Fitzpatrick and Frey.

Mortgage Law Reform May Come This Year

With legislatures open in practically all states, this year may record some significant achievements in the passage of more realistic laws affecting mortgages, foreclosures and "doing business"—and as soon as the sessions get further along it will be reported here what results have been attained and what the prospects are. Clarifying "doing business" laws will be up in a number of states and achievements in this area have been rather substantial over recent years. Illinois is an interesting study-case for 1961 with bills scheduled to be introduced which would reduce the statutory period of redemption from 12 to six months, simplify the mechanical process of foreclosure to permit service with summons only to those having interest of record and, third, to authorize the court, in an uncontested case, to place the mortgagee in possession. Illinois has mortgage laws similar to those of many states. They were enacted after the Civil War when the state was predominantly rural, as contrasted to today when it is predominantly urban. For 90 years almost nothing has been done to recognize the changed distribution of population and changed conditions. Foreclosure procedure is complicated and time consuming and, accordingly, very expensive. The Chicago and Illinois MBAs will be instrumental in seeking to secure modern legislation and they have the successful records of two sister states, Indiana and Wisconsin, before them. In both of these states legislation was secured to reduce the redemption period to six months.

MBA Blanket Bond Now Covers Realty Taxes

Edward W. Muhsfeld, Chairman of MBA's Insurance Committee and vice president of Insurance Funds Mortgage Co., Los Angeles, announced a recent improvement in the errors and omissions coverage included in MBA's Blanket Bond.

Last year, when the committee chairman was John Dane, Jr. of Dane & Northrop, Inc., New Orleans, a survey was undertaken by the Committee to determine the degree of errors and omissions exposure involved in the payment of real estate taxes on a one to four residential mortgage property.

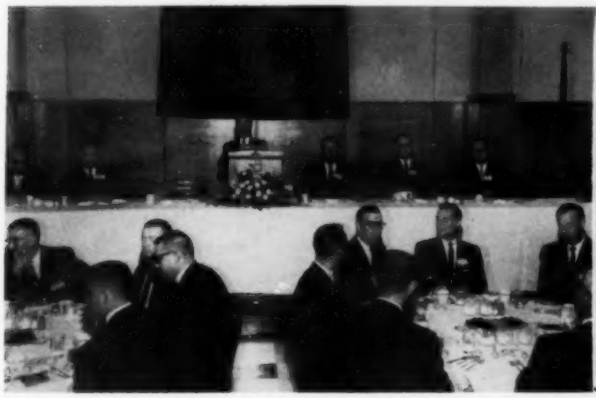
As a result of this survey, the errors and omissions coverage has now been extended by the underwriters to include coverage on any errors and omissions for failure to pay such taxes at no additional premium cost.

This new coverage has a dollar limit of $10,000 per property with a $100 deductible to eliminate nuisance type claims.

Mr. Muhsfeld pointed out that this

(Continued next page)

They Got Their Degrees in Studying Income Properties



The Income Property Seminar at Michigan State was more than just another successful meeting—it brought into clear focus the changing character of mortgage banking, the emphasis which so many place on income property loans and their desire to learn more about them.

Above, at one of the sessions, Dr. Paul E. Smith; Lewis O. Kerwood, MBA director of education and research; Louis P. Wolfort, chairman of the MBA educational committee and president, First National Mortgage Corporation, New Orleans; Robert Tharpe, MBA president; Dr. James D. Edwards, Michigan State University; and James B. Biddle, executive vice president, M. P. Crum Company, Dallas.

Above, right, father and son attend the Seminar and are awarded their certificates at the same time. MBA Vice President Carton S. Stallard hands the certificate to Tad Fithian of the Fithian Mortgage Company, Youngstown and, right, David J. Fithian gets his from Dr. Paul E. Smith who is assistant dean, College of Business and Public Service, Michigan State University.

Below, Mr. Stallard awards degrees to . . . T. T. Hyde, III, vice president, First Mortgage Corporation, Richmond . . . Raymond C. Guy, secretary-treasurer, Central Kentucky Mortgage Company, Inc., Paducah, Ky. . . . and R. James Colter, assistant secretary, Fort Wayne Mortgage Co., Detroit.

is a further adaptation of the Bond to meet the changing needs of mortgage bankers and is another forward step to maintain the Bond's coverage leadership in its field.

The Mortgage Bankers Blanket Bond has now been available to MBA members for nine years through Bankers Insurance Service Corporation. Throughout that period participation in the Bond has continued to grow. The Bond is another service by MBA to which the membership has been responsive on virtually a nation-wide basis.

THE COMING MBA CONFERENCES

CHICAGO — FEBRUARY 20-21
ATLANTA — APRIL 10-11
MONTREAL — MAY 18-19

Are you sure you have given proper consideration to management succession — and do your investors know about it?

HOW CAN WE SELL MORE MORTGAGES TO PENSION FUNDS?

Is there anything new in making and selling commercial and industrial loans?

WHAT ARE THE ECONOMICS OF OPERATING BRANCH OFFICES?

WHERE IS OUR ECONOMY HEADED?

Place of the mortgage banker in urban renewal.

Recession, readjustment, momentary pause — what is it and how long will it last?

Is 1961 supply of good mortgages likely to be considerably less than the demand?

WHAT'S THE TREND IN REAL ESTATE?

What broad changes in national housing policy are likely this year?

Overlooked opportunities in FHA's special programs?

What are the opportunities, the prospects, the difficulties and hazards in forming real estate investment trusts?

AND WHAT'S ON THE AGENDA

WHAT CAN WE EXPECT IN MORTGAGE RATES?

Three big mortgage meetings about mortgages for mortgage bankers who make and sell mortgages are coming up in the MBA schedule as indicated above; and an Association member who can somehow manage to catch all of them will find each one rewarding and profitable in a special way. The emphasis at each Conference is two-fold: on the new developments within our business and the economy and, second, on some very practical aspects of the day-to-day conduct of a mortgage operation.

First on the agenda is the Chicago Conference this month and, as usual, this is the kick-off Conference of the year. It's a combination of a general program and workshop sessions.

These workshop sessions, their themes and the moderators are:

"How Mortgage Bankers Can Sell Mortgages to Pension Funds," W. W. Wheaton, president, The Galbreath Mortgage Company, Columbus, *moderator.*

Participants: Arthur W. Viner, president, Investors Central Management Corporation, New York and Ross C. Fox, vice president, T. J. Bettes Company, Houston.

"The Right Relationship Between Mortgage Banker and Commercial Banker," George H. Dovenmuehle, chairman, Dovenmuehle, Inc., Chicago, *moderator.*

Participants: Bentley G. McCloud, Jr., vice president, The First National Bank of Chicago, Chicago and Cary Whitehead, president, Allied Investment Company, Memphis.

"The Opportunities in FHA's Special Programs," Dale M. Thompson, president, City Bond and Mortgage Company, Kansas City, *moderator.*

Participants: Herschel Greer, presi-

They're Conducting the Conferences in Chicago, Atlanta and Montreal

M. A. Pollak

Newton Noble

Jere M. Mills

Jack Martin

G. L. Campbell

Co-chairmen of the Chicago Conference are Maurice A. Pollak, executive vice president, Draper and Kramer, Inc., Chicago and Newton S. Noble, Jr., president, Lake Michigan Mortgage Company, Chicago. Mr. Noble is president of Chicago Mortgage Bankers Association.

Co-chairmen of the Atlanta Conference are Jere M. Mills, president, Georgia Securities Investment Corporation, Atlanta and Jack M. Martin, president, Colonial Investment & Mortgage Company, Atlanta.

Co-chairmen of the Montreal Conference are Sidney A. Shepherd, supervisor, Mortgage Department, Bank of Montreal, Montreal and G. L. Campbell, United States Mortgage Officer, Sun Life Assurance Company of Canada, Montreal.

dent, Guaranty Mortgage Company of Nashville, Nashville and Ernest H. Miller, vice president, State Finance Co., Salem, Oregon.

"The Economics of Mergers and Acquisitions for Mortgage Bankers and How Branch Offices Are Operated," Donald S. McGregor, executive vice president, T. J. Bettes Company, Houston, *moderator*.

Participants: Edward J. Harney, partner, Peat, Marwick, Mitchell & Co., Chicago and Richard B. Caton, assistant secretary, Stockton, Whatley, Davin & Company, Jacksonville.

"Techniques in Selling Commercial and Industrial Loans," Robert H. Pease, vice president, Draper and Kramer, Inc., Chicago, *moderator*.

Participants: Charles P. Landt, executive vice president, Cameron-Brown Company, Raleigh, N. C. and Frank R. Shugrue, vice president, Bankers Life Insurance Company of Nebraska, Lincoln.

"Why Management Succession Is of Vital Importance for the Mortgage Banker," Wallace Moir, chairman, Wallace Moir Company, Beverly Hills, Calif., *moderator*.

Participants: Walter C. Nelson, president, Eberhardt Company, Minneapolis and H. Gordon Shively, Main and Company, Philadelphia.

Three sessions will be presented Monday at 8:00 A.M. and repeated at 9:30 and three more will follow on the same schedule on Tuesday. Thus, everyone attending will have an opportunity to catch four of the six sessions.

The general sessions part of the Chicago Conference begins at 11:00 A.M. On the opening morning, Maurice A. Pollak, executive vice president, Draper and Kramer, Inc., Chicago and co-chairman of the meeting, will preside following remarks by C. C. Cameron, president, Cameron-Brown Company, Raleigh, N. C. and chairman of the MBA Conference Committee. The two principal speakers at the sessions will be MBA President Robert Tharpe and Gaylord A. Freeman, Jr., president of The First National Bank of Chicago. Mr. Freeman is one of the country's most distinguished bankers and heads one of the largest banks in the country. Currently he is president of the Savings Division of ABA and his past career has included many governmental and civic activities, among them as consultant to the Secretary of the Treasury in past years.

Gaylord Freeman

C. C. Cameron

The general session of the second morning will be given over entirely to a panel discussion of the Real Estate Investment Trust act. Newton S. Noble, Jr., president, Lake Michigan Mortgage Company, Chicago and co-chairman of the Chicago Conference, will open the meeting. MBA General Counsel Samuel E. Neel will moderate the panel and participants will include Miles L. Colean and Andrew Murphy, both of Washington, D. C., William Doughty, vice president and treasurer, Aldis & Company, Chicago and H. Cecil Kilpatrick, Kilpatrick, Ballard & Beasley, Washington, D. C.

At the Chicago Conference about twenty MBA committees will utilize the occasion for winter meetings which will begin on Sunday, February 19. In addition, the Young Men's Activities Committee will hold a luncheon on Monday noon. John C. Hall, Jr., chairman of the Committee and vice president, Cobbs, Allen & Hall Mortgage Company, Birmingham, will preside and Joe Jack Merriman, vice president, Merriman Mortgage Company, Kansas City, Missouri, will speak on "Making a Place for Young Men in Our Association." At the same time the MBA Farm Loan Committee will sponsor a luncheon.

CHALLENGES IN THE FUTURE

(Continued from page 17)

Still another thing you could do—and at a profit, too—would be to actively seek re-sale financing. This would not be easy. It would involve a basic re-thinking of your role in the financial world. But I think all will agree that too many mortgage bankers are too "development-minded" — and that big developments will no longer play such an important role in the housing field. If this be true, it follows that you will have to march—or be marched!

In this connection, it is worthwhile to note that consumer credit, which has become of such great importance in so many fields, is the fastest growing and most profitable field of credit for both the manufacturers and the lenders; yet, lenders, especially the commercial bankers, resisted its growth for years on every possible ground, from financial unsoundness to moral turpitude.

Mortgage bankers who are willing to expand into the "retail" field will find the opportunities practically unlimited. There are 27,396,000 houses entirely free of mortgage debt; and the 18,847,000 which are encumbered have an average mortgage of only $6,952. Moreover, the American people have more than $400 billion in liquid assets and can look forward to a probable increase of $12 billion in disposable income in 1961 alone. Furthermore, as the spread between the rates on existing mortgages and new mortgages continues to narrow, sales, resales and repurchases can grow if the means are available.

It is my contention that mortgage bankers should break the traditional fetters which bind them so closely to new housing, and should, in the days ahead, serve the entire field of home financing. If this is done, there will be no limit to the opportunities you will face. In mortgage banking more than in any other industry that I know, the future will be what you make it.

MONEY FOR MORTGAGES

(Continued from page 19)

▶ The downturn in interest rates that occurred in 1959 will not be reversed. Nothing in the demand and supply of funds figures would indicate that there will be a renewed upturn of interest rates during the coming year.

▶ A further substantial decline in interest rates is more likely to be in the short end than in the long end of the market since the added supply of funds will come chiefly from commercial banks due to some further easing of the bank's net free reserve position. In fact, as banks adjust their thinking to including vault cash in figuring their excess reserves, that

(Continued page 40)

Montreal is new, modern, bustling but also a richly colorful city, steeped in traditions from the earliest days of settlement of the Western Hemisphere. Left, Bonsecours Market, and nearby Jacques Cartier Square with the column erected in memory of Lord Nelson, hero of Trafalgar. Right, Montreal from the lookout atop Mount Royal.

Colorful

Montreal

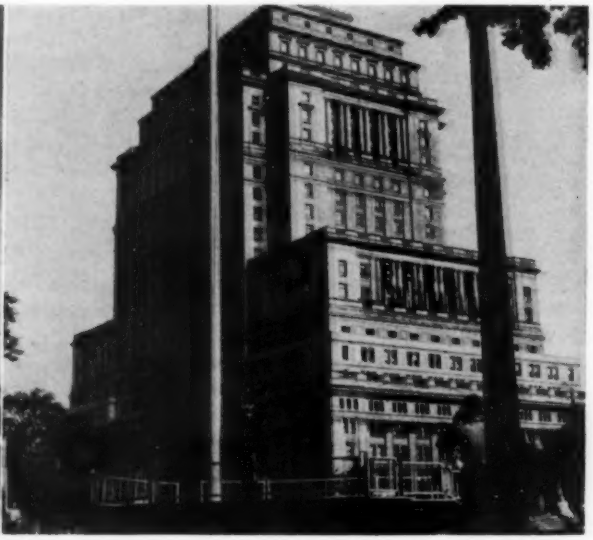
During the past two decades MBA has held Conferences and Clinics in every section of the country, in some cities such as New York and Chicago every year and in many others every third or fourth year. But on the 1961 agenda is a conference with a number of firsts—first time in Canada, first time in Montreal—one of the Western Hemisphere's great cities—and first time for a community where the Association does not have the same kind of membership representation it has in U.S. cities. But despite these differences, the Montreal Conference in May seems certain to be a memorable experience. The meeting is not only new for MBA—it's new for most members themselves since, it appears, most of them have not visited this beautiful and colorful city. Thus a bit of enlightenment would seem in order.

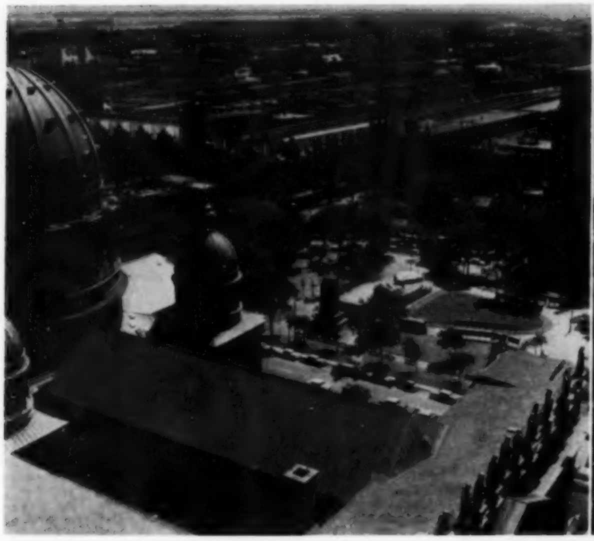
Those who attend will have the happy experience of seeing spring burst upon our friendly neighbors and being in the most truly French region of North America. Visiting Quebec is a reasonably accurate facsimile of a trip to France, and Montreal reflects its French heritage.

At least 18 of approximately 48 restaurants outside of hotels in Montreal specialize in French cuisine.

For a novel experience and a grand view of Montreal take the motor

Below, left, the St. Joseph Oratory, atop Mount Royal. Below, right, the Sun Life Assurance Company of Canada Building, tallest in Montreal and largest office building in the British Empire. Sun Life's G. L. Campbell is one of the co-chairmen arranging MBA's first visit to Canada.





Above, left, a partial view of Montreal as seen from the Queen Elizabeth Hotel, newest in Montreal and one of the most luxurious in the world. It's where the conference is being held. St. James Cathedral in the foreground. Right, steeple of Church of Notre Dame de Bonsecours commonly known as the Sailors' Church.

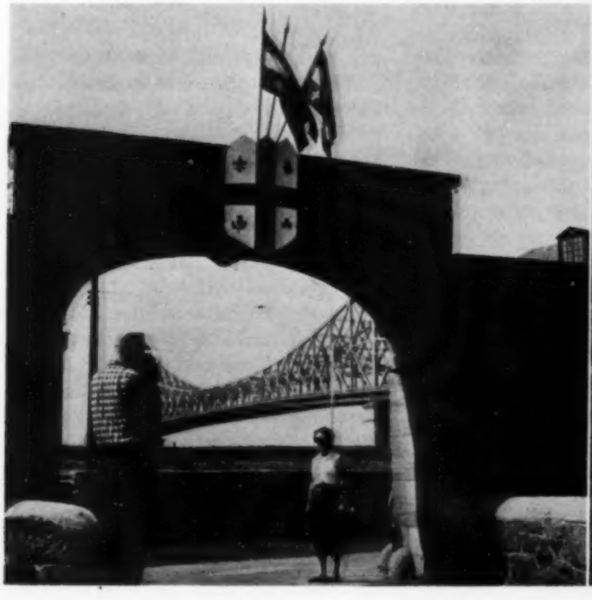
coach and tally-ho tour of Greater Montreal and Mount Royal. The city tour starts from the Gray Line Terminal at 1188 Dorchester St., West, or any downtown hotel. It threads through the shopping and theatrical districts, the wholesale and financial centers, the heart of the old French district and some of the better parks, then circles Notre-Dame Church and presents a view of the harbor.

The century-old Notre-Dame Church is a tourist's delight. It can accommodate an estimated 10,000 worshippers. Its twin towers contain ten bells, one of which is known as "Le Gros Bourdon" weighs 24,780 pounds and is believed to be the largest bell in North America. The church is known, too, for its collection of religious paintings and the extravagant wood-carving about the altar.

The motor trip is followed by a ride in a horse-drawn tally-ho to the top of Mount Royal Mountain, where motor vehicles are prohibited. While pausing at the Lookout you can enjoy an excellent view of the city, the St. Lawrence River, Lachine Rapids, the Adirondack Mountains which trail off into New York State, and Canada's own Laurentian Mountains which should be donning their seasonal cloak of fresh green leaves.

Quebec, about 150 miles north of Montreal and also on the broad St. Lawrence River, is even more Gallic than Montreal.

Below, left, the battlements on St. Helen's Island at Montreal. Right, the Chateau de Ramezay in Montreal.



MAKING MORTGAGES

and the factors that will be most important this year

The dimensions and prospects of mortgage investment this year will be about the same dimensions and prospects of the general economy. Funds will be ample, but the precise demand depends upon many factors. As to rates, this life company executive expects them to be somewhat lower in the first half—but not much lower. In this appraisal of the outlook, Mr. Edmiston reminds mortgage bankers of a significant change in investor attitude, mainly their increasing desire for commercial and industrial loans as contrasted to residential mortgages.

By HENRY H. EDMISTON

Vice President, Kansas City Life Insurance Company at the MBA-SMU Conference

TO DETERMINE the prospects for the supply and demand of mortgage funds during 1961, an appraisal of the general economic and business climate must be made. The forecasts now being made by the experts contain an unusual degree of unanimity. Most analysts expect the trend of business activity to be downward during the first half of the year. They anticipate further liquidation of inventories and a modest decline in capital expenditures by business and industry. This will be accompanied by an increase in unemployment and some curtailment in personal incomes.

Nevertheless, there is general agreement that the decline in economic activity will be mild and there will be no cumulative pressures which will push the economy into a serious downward spiral. Consumer income, including unemployment benefits, and consumer spending will be well maintained, and this should prove to be a sustaining factor that will cushion the decline in business and provide a sound basis for ultimate recovery. Public confidence about the future appears to continue strong and this should prove extremely important in preventing a serious recession.

Henry H. Edmiston

Beginning about the middle of the year, the consensus is that we will experience an upturn. This view is held for a number of reasons. By mid-1961, inventory liquidation will have been largely completed. Although no major buildup in inventory is anticipated for the balance of the year, the mere fact that stocks have been brought into line with current sales and inventory liquidation ended should provide some stimulus to business recovery. There appears little prospect of much stimulation arising from increased capital expenditures by business throughout the year. Nevertheless, a leveling out of capital expenditures at a relatively high level should be a sustaining factor. More stimulus is expected from residential housing as a result of the greater availability of mortgage money and perhaps lower interest rates.

The major reason for thinking business will improve in the second half is the general belief that government expenditures will increase. The new Administration is expected to increase expenditures for national defense and for various domestic, social and economic programs. Thus, the seasonal decline in revenues which develops during the second half of any calendar year, combined with an increased level of spending, will produce a sizable deficit during the last half of 1961 which would give a positive stimulus to business activity. Finally, it is anticipated that consumers, although they are likely to continue to buy cautiously, will maintain a volume of spending that will be sufficient to sustain a high level of industrial activity. Business sentiment which appeared to be mildly pessimistic at the start of the year is already showing some slight improvement and further gradual improvement may occur as the year progresses.

In short, it appears that 1961 will not be a boom year, yet it will not be a recession year. The course of business should be mildly down during the first half and mildly up during

the second half, with a reasonably high level prevailing throughout the year.

This is the economic outlook upon which to look at the demand and supply of mortgage money.

First, the supply side. Here the outlook is clear. There will be adequate mortgage funds from private sources to meet all sound and legitimate needs in the mortgage market. The principal suppliers of mortgage funds are the so-called savings institutions. All the major savings institutions appear likely to have as much, if not more, net increase in savings during 1961 as they had in 1960.

▶ The savings and loan associations will probably show a growth of perhaps $9 billion and most of this money normally flows into residential mortgages.

▶ The life companies will probably show a net gain in assets of around $6 billion.

▶ The mutual savings banks, whose growth has been curtailed during the last couple of years, appear likely to show an increase of perhaps $2 billion.

▶ The time deposits of commercial banks should also show a greater increase in 1961 with a gain of something over $6 billion net.

This makes a total net increase in available funds for the principal savings institutions of $23 billion in new money. In addition, these institutions will need to invest the funds they receive from principal payments on their outstanding investments.

In contrast to the last two years, the savings institutions will be looking more favorably upon mortgage loans for investment of their funds. Some of them, particularly the savings and loan associations, are largely restricted to mortgages. The others now find that mortgage rates, which normally lag behind rates in the more sensitive areas of the money market, have become adjusted and are no longer unattractive as compared with alternate outlets. Under these conditions we may expect all the savings institutions to be quite willing to make commitments for mortgage loans that meet their standards.

The demand side of the mortgage picture is more difficult to appraise. Even with the increased availability of mortgage funds that has occurred to date, there is no sign of a pronounced revival of residential and other construction which would absorb fully the funds available. We have all observed that in most of the post war period, at times when business activity is rising and the general demand for money becomes strong, loanable funds have flowed away from the mortgage market as interest rates on competitive investments have risen more sharply than mortgage rates. Money has flowed back into the mortgage market when business activity declined and open market interest rates eased. This behavior of loanable funds has, therefore, had the effect of imparting a contracyclical movement to the construction industry in general and residential housing in particular, which has contributed to stabilizing business generally.

The fact that housing starts have not as yet shown a rising trend raises the question as to whether the basic demand for housing at present is sufficient to support a higher rate of construction activity even if plenty of money is available for financing.

There appears to be a number of reasons for believing that housing will not respond as vigorously as in former post war recession periods to a larger available supply of mortgage funds. For one thing, we do not have the backlog of unsatisfied housing demand that existed in earlier post war years. More unsold houses are now on the market, and vacancy rates on both single family homes and apartments have been steadily rising in recent years, although there is evidence the vacancy rate in rental housing leveled off in the last quarter of 1960. Consequently, builders are less inclined to undertake new housing construction merely because financing is more readily available.

Second, rising land costs and construction costs generally have pushed up prices of new construction more rapidly than the rise in family incomes, thus limiting the market for new housing.

Third, it is in the later years of the 1960's rather than the early years when we may expect the impact in terms of family formation from the greatly accelerated birth rate in the early 1940's.

Finally, the government has about exhausted its ability to provide effective stimulation to housing through a progressive lengthening of maturity terms and lowering of down payments on mortgage loans, both through the FHA and the GI programs, and through granting the savings institutions broader legislative authority with respect to conventional loans.

It is hard to say what the net effect of all these factors will be in holding down the volume of new home building in 1961. My own guess is that new housing starts will be somewhat greater than the 1,290,000 starts in 1960. The previous government figures had been running about 10 per cent less than actual construction.

Whether or not this amount of new housing will be achieved will depend on a number of factors which are mostly unrelated to financing. It has been evident in much of the post war period that the home building industry has been largely selling terms rather than houses *per se*. Whenever a business turndown occurred, the home building industry received a shot in the arm by being able to offer lower down payments and lower monthly payments through lengthening repayment terms, so that home builders could offer new houses at a monthly cost to the purchaser which he felt was lower than the existing rental scales. Thus, with personal incomes throughout the period at a high level, many individuals and families felt they were able to obtain the type of housing accommodations they desired on a relatively favorable basis, and the demand for new housing revived promptly to the financial stimulation.

Home builders must now seek other means to sell new houses and this may prove to be a tough job. They must supply the type of product the public wants in terms of modern living—something better than they have now at prices they can afford. This means builders must find ways to control costs through improved design, use of new materials and greater labor efficiency so that they can offer a quality product at lower cost.

I have confidence that under pressure of competition the ingenuity of the building industry will find solutions to its problems and the public will respond to buying new houses. The recent cautious buying habits and

the building up of liquid savings probably means that many families are now more able to undertake new home purchases. There are still many people who want new and better housing accommodations, particularly in those areas of greatest population increase. The potential for a high and sustained level of housing is present but it must be developed by hard work and cooperative effort by all elements of the construction industry, including the financial community.

There will be pressure for rates to decline

What will be the impact of this supply and demand forecast upon interest rates in the mortgage market? Clearly, in the immediate future there will be pressures for rates to decline. There is always a lag in the adjustment of mortgage loan rates to those in the money market generally which have been falling for nearly a year. Short-term rates particularly have been substantially reduced while long-term rates in the Government market, and on other high grade securities, have declined to a lesser extent. Mortgage rates, on the other hand, while they have shown a softening tendency, have not been materially affected as yet. It is true the prevailing discounts on FHA an GI loans are perhaps a couple of points less than they were a few months ago, and rates on conventional loans are off a quarter to perhaps one-half per cent from the peaks reached toward the end of 1959.

The big question is how much further the decline in mortgage rates may go. Although institutional lenders have a large amount of funds to invest, they will be quite reluctant to reduce mortgage rates substantially. The savings and loan associations are generally paying 4 per cent on their share accounts with rates as high as 4½ per cent prevailing in certain parts of the country. With these high rates being paid to their customers, the savings and loan associations cannot afford to reduce their rates to new borrowers much and still have a margin to cover expenses and to strengthen reserves to the extent the leaders of the industry generally agree is necessary. The commercial banks still have very high loan-to-deposit ratios and it does not appear they will adopt an aggressive policy of adding to their mortgage loan portfolios by offering lower interest rates. Many insurance companies have sizable forward commitment accounts and are likely to let their commitment accounts run off to some extent rather than try to maintain them by making mortgage loans at much reduced rates. The mutual savings banks are also faced with the "squeeze on earnings" and appear likely to resist any material reduction in rates.

Institutional lenders generally feel there will be a strong demand for long-term credit in the next few years and, except for more or less temporary periods of monetary ease, interest rates will be relatively high as compared to the past. In the period immediately ahead, therefore, they will probably not be as aggressive in reducing rates to attract loans as would be the case if they expected a secular down trend in interest rates.

There has been a good deal of conjecture about the policy toward interest rates of the new Administration and of the monetary authorities. The Federal Reserve has for several months followed a policy of maintaining ease in the money market, and it appears likely this policy will be continued for the time being. Fears of inflation have subsided, at least temporarily, and unemployment is still increasing. The Federal Reserve as always will be watching the situation closely and could reverse its policy should signs of real strength develop in the business picture because inflationary pressures could reappear on fairly short notice.

On the whole, therefore, I should think rates in the mortgage market during at least the first half of this year will be *somewhat* lower. I stress the word "somewhat" because I do not believe they will be much lower. In any event, mortgage rates should be competitive with other long-term interest rates so that there should be no fear the needs of the mortgage market will not be taken care of by loanable funds from private sources. If business improves sufficiently during the last half of the year, we may expect a reversal in interest rates in the short-term money market, and consequently, some firming of rates in the long-term market.

Now for an additional observation, namely, the relative attractiveness of various parts of the mortgage market with particular reference to residential loans as against mortgage loans on commercial and industrial properties. I have in mind primarily the position of life insurance companies which provide the principal source of funds to mortgage bankers.

Residential loans not as attractive as in the past

More and more, residential loans are the least attractive part of the market to the insurance company investor. This is because the local lenders, such as savings and loan associations and commercial banks, have a big advantage over us. The commercial banks get many choice residential loans because their customers come to them directly with loans that are well secured and where borrowers do not want or require long amortization periods. Banks can afford to make such loans at lower rates since they have a customer relationship to protect. Savings and loan associations, on the other hand, can make higher ratio loans and for longer terms than can most life insurance lenders. FHA and GI loans are nearly always unattractive to life insurance companies in a period of tight money because rates are inflexible and adjustment through discounts is never as satisfactory as through the interest rate itself. Purely on relative yields, residential loans, after paying servicing, are not as attractive as commercial and industrial loans where competition is less. Consequently, life insurance companies may be expected to reduce their relative position in the residential field over a period of time and this may be a serious matter as far as mortgage bankers are concerned. This is one of the things mortgage bankers have in mind when they seek to broaden the interest in the mortgage market on the part of pension funds and others. Also, it accounts for the efforts to enter the commercial loan field on a larger scale. Mortgage bankers are wise in doing these things, and I hope they will be successful.

Mortgage bankers must face up to the competitive forces developing in their business. They should be devoting their best thoughts and efforts to ways to reduce costs and give service to both customers and investors on a basis that will expand their business and maintain their profits.

People : Places : Events

Just before leaving office, President Eisenhower named **Milford A. Vieser,** executive vice president of The Mutual Benefit Life Insurance Company, Newark, to membership on the 7-man national New Jersey Tercentenary Celebration Commission. The commission, authorized by Congress, will be responsible for the Federal Government's plans for the observance of New Jersey's 300th anniversary in 1964. The commission will work closely with the State Tercentenary Committee.

Ernest J. Loebbecke, president of Title Insurance and Trust Company, Los Angeles, and chairman of the Los Angeles Community Chest campaign, has accepted the chairmanship of the 1961 Construction Industry Campaign for Mount Sinai Hospital and Clinic in that city.

The S. L. Hammerman Organization, Inc., Baltimore and Washington mortgage bankers, announced the appointment of **Charles D. Scudder, Jr.,** as head of its metropolitan Baltimore mortgage operations. Mr. Scudder since 1956 has been vice president of the Midwest Mortgage Company, Louisville. He is a graduate of the University of Virginia Law School, Princeton University, and the MBA School of Mortgage Banking. For eleven years previous to his entry in the mortgage business, Mr. Scudder was assistant general counsel and corporate secretary with the Brown & Williamson Tobacco Corporation in Louisville.

Elton G. Crockett was named chairman of The First National Bank of Provincetown, Mass. He is president of The Crockett Mortgage Company, Philadelphia, a director or trustee of many organizations, including an A.F.L. Union Pension Trust, the Philadelphia MBA and Northeastern University of Boston.

Promotion of **Lawrence W. Johnson** from assistant vice president to vice president in charge of the mortgage loan servicing division of the South Carolina National Bank, Greenville, S. C., was announced by **W. W. McEachern,** president. Mr. Johnson has headed the Division since its establishment.

George McHenry has been elected a vice president of the McElvain Mortgage Co., Chicago. He will continue to specialize in the financing of industrial, commercial and residential income properties. McHenry is a director of the Illinois Assn. of Real Estate Boards and is a past director of the Chicago MBA.

Thomas P. Hall, formerly manager of investment accounting and previously supervisor of mortgage loan accounting of Minnesota Mutual Life Insurance Company, St. Paul, has joined Savill-Mahaffey Mortgage Company in Indianapolis in charge of the firm's servicing.

John H. Guluzian, who has been assistant treasurer of the Home Savings Bank, Boston, has been promoted to assistant vice president of the institution . . . **Robert H. Pease,** vice president of Draper and Kramer, Inc., Chicago and MBA regional vice president, was elected president of the Hinsdale Illinois Community House.

Paul M. Jones, partner of Herbert V. Jones & Company, Kansas City, was elected president of the local real estate board for 1961. He is the fourth of the Herbert V. Jones partners to head the organization, the others being the late **Herbert V. Jones, Byron T. Shutz,** former MBA president, and **William J. Campbell.**

Ray R. Reece, who headed the real estate department of the Commerce Trust Company in Kansas City for many years, has retired and has been succeeded by **Charles H. Kopke,** vice president.

Ray R. Reese

Charles Kopke

Kenneth H. Grove, until recently executive vice president and manager of Encino Mortgage Corp., has returned to Grove Mortgage Corporation in Encino as president and general manager. Grove Mortgage is a correspondent for Northwestern Mutual Life Insurance Company.

James T. Barnes, president of James T. Barnes & Company, of Detroit, announced the appointment of **James E. Brophy** as executive vice president. Brophy has been active in the field of multiple dwellings and redevelopment projects, and was recently elected to the board of the Detroit MBA. He is chairman of the Michigan State Commission on Aging, and recently acted as chairman of the state delegation to the White House Conference on Aging. He is also chairman of the International Bridge Authority, organized to finance and build an international bridge across the St. Mary's River into Canada. The financing for this bridge was successful and construction has begun.

James Brophy

Conrad J. Sutherland has become associated with Lowell, Smith & Evers, Inc. of New York, San Francisco and Beverly Hills. He will work from the New York office specializing in nation-wide mortgage sales. He formerly was counsel in the New York agency of FNMA and later was special sales representative of FNMA in charge of its national sales office. Subsequently he was with Pringle-Hurd & Co., Inc. of New York City as vice president, secretary and counsel and more recently vice president and mortgage sales officer of Lawyers Mortgage and Title Company of New York.

The First National Bank of Colorado Springs promoted **Russell L. Truitt,** mortgage loan officer to vice president and mortgage loan officer, and named **Allen M. Burt** as assistant mortgage loan officer. Truitt, formerly vice president of H. Duff Vilm Mortgage Company, Indianapolis, has been with The First National since 1957. Burt started at the Bank shortly after his graduation from Colorado College in June, 1958.

James C. McDonough, president of the Residential Mortgage Company, Pittsburgh, announced the appointment of **Robert A. Martin** as vice president. Mr. Martin has been associated with Residential since March, 1960. Prior to this he spent ten years with the Housing Mortgage Corporation.

W. B. Philips has been named chairman of W. B. Philips & Company, Birmingham and **W. B. Philips, Jr.** has been elected president, **Walter W. Kennedy, Jr.** executive vice president and **James E. Baskerville, Jr.,** vice president.

Rapid growth in servicing volume during recent years has been common within the industry and many highly impressive records have been established. One was set by Franklin Mortgage Corporation, Detroit, which this month is celebrating its third anniversary. Established in 1958 with an initial portfolio of $19,000,000 in FHA and VA loans, the company now services a $45,000,000 portfolio, with loan processing running about a million dollars a month. During much of its three-year history market conditions have not been the most favorable, but the company's president and founder, Benjamin Levinson, was one of the mortgage bankers who early saw the possibilities of selling loans to pension and retirement funds and has developed this phase of mortgage investment extensively.

Franklin staff: seated, left to right, Richard H. Lee, vice president; Mr. Levinson, president; Robert J. Cerwin, secretary; and Gerald Paduk, application manager. Standing, Walter L. Zygmunt, assistant secretary-treasurer; Keith Wilhelm, IBM department manager; Donald A. Hoff, treasurer and service manager; and Meyer Yolles, assistant treasurer.

The company services for 34 major accounts, among them banks, life companies, savings and loan associations and a number of pension trusts, including municipal funds and those of several labor unions.

Retirements

Ralph E. Bruneau, a long-time member of the MBA board of governors, has retired as a senior loan officer of the Valley National Bank in Phoenix, but will continue with the institution as a consultant handling special assignments. Under Mr. Bruneau's direction, Valley Bank became the largest source of FHA financing in Arizona since 1934 when it made the first FHA loan in the state. He has been an active participant in a long list of housing and building activities in Arizona, as well as in numerable civic and charitable efforts. His career began in Utah, where he operated his own abstract and title company in Salt Lake City, moving to Phoenix in 1929. In 1935 he joined Valley Bank as manager of its mortgage loan department, which he helped organize. He took the leading role for MBA in opening up Arizona and his area of the Southwest to membership and from his efforts came a series of conferences and clinics in that state.

Addison K. Barry, vice president of the National Newark & Essex Banking Company, Newark, N. J., has retired from his position. During the past two decades he has been an active member of MBA, particularly in its educational program. He has played a leading role in the Association's NYU Senior Executives Conference and was one of the pioneers in organizing and developing the New Jersey MBA.

MONEY FOR MORTGAGES

(Continued from page 33)

alone would lead to expansion of security holdings.

Two developments could change this prospect:

▶ A return to large-scale Treasury deficit financing without further easing of Federal Reserve credit policy would tend to stiffen interest rates, especially at the short-term end.

▶ A belief by many commercial banks that the business readjustment now under way will continue for some time because the economy may need a year or two to work off margins of excess productive capacity, of housing inventories, and so on, and consequently a decision to expand holdings of intermediate obligations for higher yields. Such a decision by the banks would exert pressure upon longer-term interest rates.

As condensed from Dr. Bogen's address at the Investment Seminar of the New York State Bankers Association.

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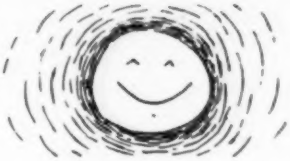

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